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Chechnya Peace Talks Seen as Only Solution

954F2358A Moscow MOSCOW NEWS in English 12-18 May 95 No 18, pp 1-2

[Article by Viktor Sheinis, State Duma deputy, Yabloko faction: "Chechnya: Dialog of the Deaf"; first paragraph is introductory paragraph]

[FBIS Transcribed Text] As one could expect that the Russian president's declaration of a moratorium on military action during the first ten days of May would fail to ease the conflict.

The underlying cause of this peacemaking activity is too apparent. Political life is traditionally built around a celebration, and cannon fire in the Caucasus is a highly undesirable accompaniment for the parade and fireworks. Russian leaders and society have got more or less used to it, while the guests from overseas should receive at least relative political comfort.

Whereas the Russian leadership was really in need of a break, the Chechen side was interested in the opposite: to demonstrate to the world's top figures its strength and perseverance. Admittedly, along with the moratorium, both sides started talks between military leaders, but from the very beginning it turned out that it was not the right level for the problem at issue and that the participants' views were too remote from each other.

The results of the talks were an exchange of the killed and badly wounded and, in a further perspective, an exchange of prisoners on the "everybody for everybody" principle. All this is a certain achievement, but a modest one.

Each side is setting absolutely unacceptable requirements for the partner. The federalists say "put down your arms." The Chechen commanders reply, "withdraw your forces." Both requirements are thought to be not the goal of a hard and lengthy peaceful process but only its preconditions. That is a dialog of the deaf. It is obvious that in case the calls of the Russian commandment are fulfilled, the kind of power that is now concentrated in Grozny will immediately spread over the whole of Chechnya. Even the creators of this power are doubting its legitimacy. It is also obvious that the Chechen requirement to withdraw the troops, if fulfilled, would return the Dudayev rule to the plain districts that were captured at a great cost.

What about electing a new legitimate power? Everybody agrees with it, but both Khadzhiyev and Maskhadov added the same: "Only not at gunpoint."

The fact that both sides rely on mythology in their assessments of the present situation and its prospects also complicates the talks. In the statements of Russian commanders sounds an echo of Defense Minister Grachev's statement where he boasted: "We'll capture Grozny with the help of one regiment in two hours." Certainly, the unnerving experience of six-month-long hostilities made the statements more careful, but it did not shake the commanders' confidence that a victory is very close. The other side's understanding is no less mythological: we are stronger than ever, invulnerable in the mountains, and if necessary we could even return the plain cities, while the Russian troops are depressed and are not able to wage even a local war, they could beat us only with a nuclear bomb...

Such starting positions make the talks pointless, and the war will persist with all its harrowing consequences. Soldiers and even more civilians will perish on both sides. Bitterness and hatred will increase, promoting the growth of violence and terrorism. It is the tragedy of Chechnya, but it is naive to think that such a poisonous brew could be localized within the Chechen borders. Ingushetia, filled with refugees and subjected to "occasional" air strikes, is the first victim. The next will come soon.

The only alternative to all this is negotiations on a higher political level. Negotiations must happen between responsible Russian politicians who prove not to be hawks and those Chechen political figures who have real power in the regions that are not captured by the federal troops. The latter broadened their authority as an effect of Russia's military action that was treated by the Chechens as an aggression against their people. Of course, after what has happened the talks will not go easily. But the Russian commanders should not console themselves thinking it is possible to settle the crisis by skirting these people.

Unfortunately, those at the top deny everything that does not correspond to official mythology. They, for example, ignore the plan to settle the Chechen crisis stage by stage, that was proposed as early as March by the Coordination Council for Peacemaking Missions in the Caucasus and by the RF human rights representative. The Russian deputies who visited Chechnya during the holiday moratorium were not even allowed to come to see the president or the prime minister.

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Economic Issues

*Abalkin on Country's Economic 'Collapse'

954E1016A Moscow KRESTYANSKAYA ROSSIYA in Russian 22-28 May 95 No 19, p 3

[Article by L. Abalkin, director of the Institute of Economics of the Russian Academy of Sciences: "In Russia It Is Not a Crisis—In Russia It Is a Collapse Which Is the Natural Result of a Profoundly Faulty Course and a Demonstration of Its Unsound Nature"]

[FBIS Translated Text] It is specifically the strategy of survival that determines the behavior of everyone, from the individual family to the region and even the government itself, which only has time to patch up holes that occur here and there. In some cases, however, dangerous symptoms are observed indicating the rebirth of old, well-known, administrative distribution methods.

None of this occurred by accident; this is not someone's malicious concept nor the action of conservative forces, as we often depict it. It is a result of the profoundly faulty nature of the course of economic reform that was selected. It is proof of its unsound nature; it is a dead-end variant of development.

That is why the first task that must be resolved today is creation of a program of radical renovation of this strategy and the tactics of Russian reforms, at the same time not rejecting its final goals: formation of a socially oriented market economy, adoption of democratic principles in the life of society, and founding of the institutions of a civil society in the country. We are speaking of a radical change in strategy and tactics as well as a change of agrarian policy, which is part of this question.

A change in course, naturally, is not done on command in a single day. A sufficiently large strategic maneuver is required. one designed to take about a year-and-a-half, in the course of which it would be possible to eliminate the deformation that developed in the economy. Certain measures are required, time is needed, and an entire system of consecutive actions is necessary making it possible to bring the economy into a different regime of functioning. It is necessary to follow a path of major reorientation of the entire economic policy instead of a path of patching up holes. Finally, it is necessary to understand that it is impossible to struggle against inflation for four years in a row using a single method—restraining the money supply in circulation—without making additional payments out of the budget, without fulfilling government obligations to the agrarians, the defense complex, science, and the educational system, and constricting by all means these channels of monetary influx. Because the task is not resolved in this manner, the nature of inflation is different. It is simply necessary to change priorities and positions in the socioeconomic policy, clearly setting the primary and central criterion which must be used to determine success or failure of the government.

That is reorientation toward stimulation of business activity, and first of all, investment activity. It is support of domestic producers, a moderate, weighed, and wise economic policy, without dashing from one extreme to the other, with a step-by-step, gradual movement toward an open Russian economy with regard to the world economy. That is the creation of stable, durable, predictable rules of management, rules in which subjects of the market interact with each other, the government, and the financial banking system. That is adjusted, clear-cut tax legislation, functioning without change for at least three years.

The most effective types of production are in need of support. With regard to agriculture, the highly efficient commodity farms need help. It should make no difference what form of ownership applies to a farm, whether it is a state or a cooperative farm, a large or a small one, based on mixed land utilization or on some lease relations. It is necessary to support those which, all conditions being equal, without any special benefits or privileges, placed under equal conditions of competition, ensure the highest marketability and efficiency of production. Let the most powerful one, capable of resolving this task, win, squeeze out, and occupy its place in the complex, multistructured, mixed economy.

Among the methods of resolving the crisis I would first of all like to list the possibilities of developing cooperation in all of its forms and directions, starting with cooperative marketing. Why should every farm or farmer have to engage in it on their own? Why do they have to rely on old structures instead of trying to become the founders of a marketing cooperative and organizing a very powerful product marketing network throughout the country dealing in food, raw material, etc. Procurement cooperatives and credit partnerships constitute very large reserves.

Today we face two possible prospects: either rebirth of Russia, its return to the ranks of great economic powers with an independent foreign and domestic policy, high living standards for the population, and self-respect of citizens for themselves and for their country, or a falling away to the periphery of world civilization joining the ranks of second-rate powers, which are raw material appendages of highly developed countries, without any chance of returning to better positions and with a dangerous threat posed to Russian statehood as such.

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Today these variants are about equally probable. The next two or three years will determine which one of them will be realized in practice and which one will fade away as an unrealized threat or chance.

***Livshits on Government Policy Toward Privatization**

954E1020A Moscow KOMMERSANT-DAILY in Russian 16 May 95 No 18, p 28

[Article by Natalya Kalinichenko and Aleksandr Privalov: "The Blocks of Stock Are Broken Up and Land Gets Cheaper: The Authorities Decide To Speed Up Privatization Through the Advance Sale of the Most Attractive Blocks of Stock"]

[FBIS Translated Text] The title of the new presidential edict emphasizes the authorities' views of privatization: it is now considered above all a method of replenishing the budget rather than an institutional transformation. Presenting the edict to journalists, **Aleksandr Livshits,** however, emphasized: "It is not merely a matter of federal budget income, it is a matter of impetus for the very process of privatization and stimuli for reform as a whole, stimuli for developing different markets—real estate, mortgages, and many others." And that is to a certain degree true. But the title speaks of the most important thing. For according to Mr. Livshits, at the start of the year the situation concerning budget income from privatization was simply a disaster. During the first quarter, the budget received only 38 billion rubles [R] of the R9.1 trillion anticipated for the year, less than half a percent.

As was expected (see KOMMERSANT, Nos 12 and 17), the government deemed the medicine for this malady to be *advance sale* of federal blocks of stock. This will make possible a sharp increase in budget revenue. First, many federal blocks of stock (above all, of course, stock of fuel-energy complex enterprises) will arouse much greater interest among investors than the stock of most other enterprises designated for monetary privatization—the sale rates will be higher. Secondly, monetary privatization was expected to produce 10 percent earnings for the federal budget, the edict gives 55 percent of the revenue from the federal blocks of stock sold to the budget.

A Federal Commission under the government which is again called "To Ensure the Formation of Federal Budget Income Using Capital From Privatization" will figure out what federal blocks of stock are of strategic importance to the country's national security and so are not subject to advance sale. Anatoliy Chubays will of course head the Commission; the members will be key ministers and representatives of the president's administration. The government will ratify the list of these "strategic" blocks of stock over the course of a month. Nonetheless, other federal blocks of stock are being broken up by the new edict and are designated for "sale in stages." The moment of division naturally coincides with the moment the "strategic" list of exceptions appears—it is at present difficult to guess how long the list will be.

Needless to say, all this will be a major push to moving privatization sales out of the present stagnation. But it is unlikely a boom can be expected—there is simply too little money in the country and investment demand is extremely limited.

The edict also reflects the idea advanced by a consortium of banks, on security and fiduciary management of federal blocks of stock: over the course of 2 months the government is charged with preparing a draft edict to regulate the transfer of federal blocks of stock to legal persons for security and fiduciary management. The point here, Mr. Livshits stressed, will not be just the banks which were the first to advance this proposal but also all other structures which will ensure the guaranteed receipt of capital into the federal budget.

Of extreme importance is Point 7 of the edict, which makes the land on which privatized enterprises stand 20 times cheaper: from 200 times the price of the land tax to 10 times the price. Up to now enterprises were very slow in buying up the land under them—in some areas only a handful of lots have been bought. Needless to say, the high price played a marked role, but in many regions the local administration put up various barriers to buying it. To win the administrations over, the edict envisions directing a substantial share of the earnings from buying up the land to local (37 percent) and regional (40 percent) budgets.

There will most likely be no mass buy-out of land even now: even if less is needed than before, it is still money and few enterprises have an excess of it. The land will probably be bought up as necessary: those who see the possibility on the horizon of using the land profitably as security or those who have begun serious negotiations with a foreign investor. For foreigners are very nervous about whose land the recipient enterprise is located on. And the fact that it will be easier to buy up the land is fine [with them].

The second half of this same point of the edict, on formalizing the budget's indebtedness to enterprises in special bonds, creates a slightly strange impression. There are no details on these "special bonds" in the text and Mr. Livshits did not report on them either. It is known only that the government is supposed to formulate a statute on them within a month.

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If, say, it is proposed that the bonds have market profitability, why reinvent the wheel?: we already have GKO's [short-term government bonds], so distribute them for the debts and that will be the end of it. But if profitability is assumed to be something other than market profitability, it is an obvious violation of the agreement between the government and the International Monetary Fund: as is well known, short-term bonds have been sentenced to be eliminated soon precisely because they are not characteristic of the market. But if, finally, it is proposed that the special bonds not produce income at all, they are simply pseudomoney, and that will prevent a law "On the Monetary System" from being published.

However, as could be understood from what Aleksandr Livshits said, the authorities are putting a great deal of hope on this new paper: "After these bonds appear, a market will arise. These debts may be sold. An enterprise can obtain the land under it using the debts. For example, the budget owes an enterprise R100 and the land under it costs R50. This means that the federal budget's debt to the enterprise will be equal to R50, and the enterprise will be the owner of the land which is under it. Accordingly, the local budget, where 37 percent of this money goes, will obtain the money due it from the federal budget and can take these same bonds, deposit them in a bank, sell them to someone, and obtain real money for the local budget, money which is now so essential."

Overall Mr. Livshits is inclined to take an optimistic view of privatization prospects. In his opinion, it is perfectly possible for the budget to obtain the sum mentioned: "Study of the market has shown that selling them (enterprises designated for monetary privatization—KOMMERSANT) is possible, and the main thing, to those who work there."

To the KOMMERSANT correspondent's question of whether all the blocks of stock broken up in advance will be sold or if these blocks will possibly be transferred in trust, Aleksandr Livshits answered:

"There are quite a few variants. The sale process will be done in stages, and if proposals on effective intermediary services rather than fiduciary management appear for those which are to be sold immediately, we will agree to these proposals."

[caption to photograph]

Aleksandr Livshits: If the authorities make a firm decision not to sell something for a song, the rate of "sale in stages" will be fairly modest.

*Official on Antimonopoly Committee Policy

954E0995A Moscow TRUD in Russian 18 May 95 p 8

[Interview with V. Belov, deputy chairman of the Russian Federation State Committee for Antimonopoly Policy and Support of New Economic Structures, by TRUD political observer Vitaliy Golovachev; place and date not given: "Secret Operations of the Swedish Firm: By Inflating Prices, Monopolists Gain Immense Profits"]

[FBIS Translated Text] **The competition of goods and services in the struggle for the buyer are the main thing that distinguish a market economy from an administrative-command one. A resolute fight against monopolies began 100 years ago in the United States. We too have entered on this path. Will we manage to curb the appetites of Russian monopolistic enterprises that are trying to obtain super-profits through excessively high prices? How will this be reflected in the pocketbooks of the rank-and-file citizen? Will rich foreign firms that buy up shares in future plants not become the real masters in our market? Our conversation with V. Belov, deputy chairman of the Russian Federation State Committee for Antimonopoly Policy and Support of New Economic Structures (GKAP), was devoted to these questions.**

The Telephone Exchange Has Become Private

[Golovachev] Vadim Yevgenyevich, how many monopolistic enterprises are there in Russia today?

[Belov] First of all let us clarify specifically which enterprises we have in mind. A special place in any economy is occupied by so-called "natural monopolists." This refers to spheres where competition is in principle impossible. Take, for example, rail transportation or the water supply system. It would never occur to anyone to build two water pipelines or two sewerage systems. In the majority of countries the "natural monopolies" include electric power, pipeline transportation (pumping oil and gas), the railroads, international telephone communications enterprises, and municipal systems for power, gas, and water supply and sewerage. The state must establish strict rules for regulating the activity of "natural monopolists," including by determining the level of prices for their products and services. A couple of days ago the Federal Assembly adopted a special law, "On Natural Monopolies," which envisions detailed price monitoring, including the expediency of investments and other expenditures, but also monitoring of all large transactions concluded by the monopolists. Independent federal organs of executive power will be created for this.

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So the products of monopolists in Russian industry (not including "natural" ones) now make up about 7 percent of the overall volume. If we take the federal, Russia-wide market alone, there are more than 500 of these firms operating in it. The overall number of monopolists exceeds 4,000 enterprises.

[Golovachev] Our reader A. Korovin reports that in Arkhangelsk the city telephone network has switched over to private hands and this new monopolist has quickly begun to fleece the residents of the city.

[Belov] Yes, this is one of the egregious cases our territorial administration is now working on. The essence of the matter is this. The founders of the new telephone company came up with what seemed to be an interesting idea: to create a firm that would be a competitor to local communications enterprises. The initiative was supported. The founders were: the state communications enterprise Rossvyazinform itself, the Arkhangelskaya Televizionnaya Kompaniya Limited Liability Partnership, the Arkhangelsk mayor's office, and others. As you can see, they are quite respectable organizations and nobody would expect them to engage in dirty tricks.

The new telephone company was called the ATEK Limited Liability Partnership and it was properly registered with the mayor's office. True, it was a little surprising the ATEK was headed by V. Sharov, who was at the same time the manager of the city telephone network. Understandably, it is impossible for one person to head two firms, and competing ones at that. But many thought that Sharov intended to move to the new company in the near future.

Events developed further as in a detective film about crafty manipulators. The city telephone network (GTS) suddenly stopped rendering services to the local population. Actually it ceased to exist, and all of its workers moved to the competing ATEK Limited Liability Partnership. The property of the GTS was leased to the partnership. You might ask: But what about the higher organization—Rossvyazinform State Communications Enterprise? Why did it remain silent? Because the state enterprise became a stockholder in the company and began to be called Artelekom....

Thus no competitor was created anyway. The commercial structure simply replaced the state one, undertaking to perform all of its functions (without a license). And using state property. The "natural" state monopolist was replaced by a commercial monopolist. As a result the state lost control of the means of telephone communications and information services. You understand that even the Bolsheviks learned that the first thing you have to seize are the telephone, telegraph, and railroad stations.

At the same time, the prices of the services of the telephone exchange in Arkhangelsk began to rise rapidly. Higher and higher....

Now the Arkhangelsk administration of the Antimonopoly Committee will actively take up this matter. And although the new businessmen are saying everywhere that we are "trying to discredit a highly effective experiment," there can be no doubt: Order will be restored in the Arkhangelsk city telephone exchange.

A "Bribe" in the Form of Two Apartments

[Golovachev] How effectively are the "natural monopolies" being controlled by the corresponding ministries and departments? Perhaps it is not necessary to create new organs for price regulations as is prescribed by law—the branch "staffs" might be able to handle the problem.

[Belov] The fact is that they are not handling it. They are mainly protecting departmental interests and taking monopolists "under their wing." And the latter, taking advantage of their impunity, abuse their monopolistic position. I will give an example from the practice of energy supply organizations. Lenenergo, in return for hooking up to its power system to residential buildings of the Severnaya Verf plant, "requested" only that this enterprise pay for building a section of the main heating line and throw two apartments into the bargain. Their appetite is ruinous to the plant workers, is it not? Bryanskenergo, Buryatenergo, and others operate in a similar way.

Sometimes the energy representatives include in the price of electricity such costs as payment for disposing of pollutants the tax on wages in excess of the established limits, and even....fines. As a result, the actual profitability at many enterprises of the branch is above 40 percent and makes it possible for them to use about half of their net profit for consumption, payment of dividends, and acquisition of stocks in commercial banks....thus the extremely high wages of energy workers are provided largely at the expense of the consumers.

It is clear that independent organs are needed for price regulation of "natural monopolies."

Railroad Workers Do Not Abandon Their Own

[Golovachev] What would you do if the orders of the Antimonopoly Committee are not followed?

[Belov] We could, for example, impose a fine (including through the courts). We have also envisioned measures of criminal liability for violation of antimonopoly legislation. Let me give this example. The Tassel wood processing enterprise submitted an order for rail cars 20

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days ahead of time as it is supposed to in order to send timber to Finland. The order was included in the plan. Then the railroad workers demanded more payments in excess of the cost of the planned transportation. This was a clear abuse of their monopolistic situation. From the results of the examination of this case the October Railroad was given a strict order: Stop this extortion. But the railroad workers continued to demand additional financial funds from the cargo dispatchers. It was necessary to impose a monetary fine on the October Railroad.

In general, many railroads like to get rich at the expense of the client. Because of the intervention of our territorial administrations the Kaliningrad Railroad returned 119 million rubles [R] to the consumers and the Penza Railroad workers had to shell out some money too....

A New Owner of the Moscow Plant

[Golovachev] A monopolist might not be out in the open. Some firm could buy up shares in several enterprises on the sly and essentially become a covert owner, controlling the prices of the given kind of products. Do you handle these cases?

[Belov] Of course. And we are especially alarmed about the creation of powerful hidden financial systems through dummy or subsidiary enterprises. These same "financial pyramids" participate actively in them. This is why we are constantly monitoring the acquisition by economic entities of stocks, shares, and shares in participation....the objective is not to allow and to stop the development of monopolistic tendencies.

[Golovachev] A foreign firm can also buy a plant in order to become a monopolist. The acquisition by a Swedish company of a controlling block of shares in the hard metal alloy plant in the capital, which in the recent past was one of our industrial flagships, caused a great stir in Moscow. They say that the Swedish firm bought up the block and even made investments in production in order then to close down the plant (say, "for extended reconstruction") and become a monopolist in the Russian market. Is that true?

[Belov] I do not want to talk about this case yet because it is not yet complete.

[Golovachev] But since the stir is over, now you cannot remain silent.

[Belov] All right. A large Swedish company, Sandvik AB, occupies a dominant position in the world market for the manufacture and sale of hard metal alloy instruments. Several years ago it entered the Russian market as well. The Sandvik group includes, in particular, the Fragozo AB firm, which it controls. Then it also bought a large block of shares in the Moscow hard metal alloy combine. The combine satisfied 60 percent of the demand of the Russian market for this type of product. Other consumers are such domestic giants as VAZ, KamAZ, GAZ, and others. Having taken out a large amount of credit to buy the equipment, the hard metal alloy plant went into debt and ended up in a difficult financial position.

At the end of last year at a check auction the Fragozo firm bought up 28 percent of the shares in this combine. Then at an investment competition—another 15 percent. According to the law, in such cases it is necessary to have permission from the Antimonopoly Committee since the combine, as I said, occupies a dominant position in our market. The foreign businessmen promptly applied to the Antimonopoly Committee for permission and we granted it.

But subsequent events began to develop in an unexpected way. The Fragozo firm continued to buy up shares in the combine on the secondary market from small investors without obtaining another permit. Soon the foreigners held an immense block of shares—71.2 percent. This was a gross violation of antimonopoly legislation and other normative acts. Then, in order to give their activity the appearance of legality, Fragozo again applied to us. But this is not done in a civilized society, the sequence must be different: First the permission and then, if it is received, the purchase of the shares.

We are now working on this sensational case. We have sent inquiries to the corresponding ministries and departments in order to learn their opinion and we have enlisted specialists....the main question is, will this transaction be advantageous or harmful to our economy? After we clarify the situation we will make a decision.

[Golovachev] And if the foreigners deceive you and say that they do not intend to eliminate the plant and a couple of months later close it down under some pretext?

[Belov] Then the transaction will be declared "null and void" and the foreign firm will sustain immense losses. I want to emphasize that we are unconditionally in favor of bringing foreign investments into Russia, but under the condition that they do no harm to our economy.

Thirty Thousand Russians Have Received Compensation

[Golovachev] The last question. We know that the Antimonopoly Committee helps not only various firms that have ended up under the thumb of monopolists but also citizens by considering their complaints. Many examples of this have been given in the press. How many people have received help from you?

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[Belov] Since the adoption of the law "On Protection of Consumer Rights," antimonopoly organs alone have considered and satisfied about 35 claims from citizens. The victimized consumers have received hundreds of millions of rubles in compensation. Goods have been replaced and work and services have been corrected amounting to tens of billions of rubles. A fresh case—in March the Tarti Limited Liability Partnership from Kaliningrad near Moscow paid the citizen Sazhina R1.32 million in compensation for a poor-quality Mir-101 refrigerator that was sold to her. The firm "gave in" after charges were filed by the Moscow Oblast Territorial Administration of the Antimonopoly Committee.

The role of regional organs for protection of consumer rights under local administrations is expanding. Last year alone they considered more than 150,000 complaints and made reimbursements for about R5 billion. The taxpayer must be reliably protected from unscrupulous entrepreneurs.

In conclusion I would like to emphasize that today, when there is a large-scale division of property going on in Russia and a structural rearrangement of the economy is being carried out, the antimonopoly policy acquires special significance. We understand that only the first steps have been taken. Therefore the plans of the Antimonopoly Committee include a significant expansion of its activity. In essence we have declared a fierce war against monopolies. Those we are preventing from getting rich illegally are trying to take advantage of connections and "levers" to exert pressure on the Antimonopoly Committee and "pin it down." But the truth is on our side. Because stopping the activity of monopolists and developing competition are important conditions for movement toward the market.

*Program of Economic Reforms for 1995-97 Approved

954E0987A Moscow KOMMERSANT-DAILY in Russian 17 May 95 p 2

[Article by Vladislav Borodulin: "Authors Need Good Executors"]

[FBIS Translated Text] **At the end of last week the work of the government experts on the latest economic program of Viktor Chernomyrdin's cabinet was officially completed. The more than half-year-long discussions in Volynskiy concluded with the publication of the text signed by the prime minister back on 28 April of the program "The Reforms and the Development of the Russian Economy in the Years 1995-1997." Thus, one more government program has left the first pages of the newspapers and become, in essence, of interest only to the bureaucrats who will be able to refer to it under the "cap" of a routine document. Simultaneously with the appearance of the economic program for the upcoming three-year period, there appeared a modest government decree which, in fact, signals the start of the drafting of the next program. But in this instance the greatest interest is being evoked not by program-98, which has not yet been written, but rather by those actions of the authorities which may hasten the coming of the 1998 economic year.**

Program-98 Is Already Being Developed, But Its Authors Do Not Know About This Yet

The authorities are now in a state of euphoria with respect to the adoption of the program "The Reforms and the Development of the Russian Economy in the Years 1995-1997" and this is why the suggestion that work has already begun on the drafting of a new economic program probably will seem absurd to them in light of its obvious prematurity. However, the appearance at the beginning of May of a Russian Government Decree "On the Development of an Intersectoral Reporting Balance Sheet for Production and the Distribution of Products (Services) During 1995" may, provided certain conditions are stipulated, be considered the unofficial start of the preparatory stage for the development of strategy-98.

Of course, however, it is possible to explain the appearance of the prime minister's instructions on the development of an intersectoral balance sheet, which will be completely useless in the majority of instances, differently. The relapse into the ideas of Vasiliy Leontyev (and certain Soviet economists of the twenties), which were very popular during the era of "mature perestroyka," may be considered to be an intellectual game of Ministry of Economics associates—the current first deputy minister, Yakov Urinson, is acknowledged by many to be an ace at drawing up such balance sheets. Finally, such work does not require particularly large expenditures and ensures employment for Goskomstat [State Committee for Statistics] associates for two years—in fact, the balance sheet is supposed to be submitted only by 1 September 1997.

But such reasons can only be recognized, at the least, as light-weight ones. And this is why. The development of an intersectoral balance sheet can theoretically become the basis for a new type of economic strategy. It is precisely the goals (but not the means, as in previous programs) which may be formulated in it, which the national economy should attain after some interval of time (it, incidentally, may be quite large in comparison with the current ultra-short-term forecasts). In other words, the authorities may attempt to imagine Russia's

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place in the world economy, for example, in the year 2010. Now they do not venture to do this, citing the far too great uncertainty, but, in 1997, even if they fail to achieve an increase in GNP [gross national product], the structural crisis will facilitate this task substantially.

The fact that the government, after three years, will finally be able to make a determination with respect to the economy's strategic goals should not be doubted at all—publishing the appropriate document is a simple matter. Naturally, attaining stated goals is much more complicated.

The mid-term economic program, which has officially gone into effect, regards the establishment of an effective structure for the economy, based on a totally unregulated flow of capital, and support for competition as being of paramount importance. Which is essentially the quintessence of the classic liberal economic concept. It is possible to dispute the effectiveness of such ideas in the contemporary economic situation, but both the U.S. during the era of the Great Depression and Germany in the time of Ludwig Erhard in the end rejected the liberalism that had been in fashion in favor of the more traditional (and, as it turned out, more effective) principles of corporatism: Only large corporations have proven to be capable of carrying out the government's economic will and of taking upon themselves the functions of management of the flow of capital and development and fulfillment of plans.

A Second Wave of Official FPG's Is Arising

What does all this have to do with modern-day Russia, where it is still only theoretically possible to write an economic program "for corporations?"

The most direct thing. It is possible to apply completely the formula, well known since back in Shchedrin times, "the strictness of the laws is compensated for by the optional nature of their observance," to economic program creation. In connection with this, the program's underestimation of the role of large capital and overestimation of the role of thorough competition should not be considered as absolute. As a matter of fact, at the end of last year and the beginning of this year the government changed its attitude (perhaps not very noticeably) toward the corporations existing in Russia—more and more obviously, it is beginning to give preference to large financial-industrial groups.

The results of the work of Russian FPG's [financial-industrial group] (in all, according to the status report for April of 1995, 12 of them have been registered) last year, at first glance, are extremely good. The financial-industrial groups listed in the state registry at the end of 1994 included 180 enterprises, at which more than 1 million persons were working. According to Goskomprom [State Committee on Industrial Policy] data (the first deputy chairman of this department, Aleksandr Kalin, acknowledges that the statistics are quite skimpy, inasmuch as not all the groups have been operating for more than a year), the financial-industrial groups were able to achieve an increase in industrial production by 3.9 percent in comparison with 1993 (while the overall industrial slump amounted to 20.9 percent). The volume of investments increased by a factor of two and the sales volume grew by 20 percent, while export shipments increased even more—by 39 percent. In addition, even the overdue indebtedness of the financial-industrial groups' participants declined by 15 percent.

However, the splendid statistics are camouflaging the elements of the crisis in which the financial-industrial groups of the first wave have found themselves: an excessive concentration of industrial capital to the detriment of financial capital sometimes leads to absurd results (the Energiya Bank, which is part of the Sokol Financial-Industrial Group, according to Kalin, lost its license in the end because of this). But government bureaucrats were suddenly talking about the fact that there were other financial-industrial groups in the country, which were frequently more powerful and more stable than the official ones. The acknowledgement of this obvious fact was accompanied by an administrative tilt toward banking financial-industrial groups. At the same time, it does not particularly make any difference to the government what model a group is built on. In the Interros [Inter-Russia] group registered in February of this year, a key role is being played by two banks—ONEKSIM and MFK. The leading positions in the Ruskhim [Russian Chemical] Financial-Industrial Group are occupied by the production AO Ruskhim [Joint-Stock Company Russian Chemical], which is working with six financial institutions, including the Rossiyskiy Kredit [Russian Credit] Bank (the Volga-Kama Financial-Industrial Group is taking shape in approximately the same fashion).

In essence, the trend toward the legalization of relations between the government and large banking groups is explained quite simply: They have outgrown the semi-automatic registration conditions and a special presidential edict is needed for their approval. In the case of Interros, what served as the reason for the issuing of Boris Yeltsin's edict was the participation in it of state enterprises (the October Railroad and RAO Norilskiy Nikel [Russian Joint-Stock Company Norilsk Nickel] and the size of the group, which was larger than was stipulated in the legislation (100,000 workers

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and no more than 20,000 associates at each participating enterprise).

The government's encouragement of the second-generation groups lies not just and not so much in their registration, which has begun. The "credit and tax" proposal of the banking consortium (the majority of its participants are also the "nuclei" of official and unofficial financial-industrial groups) was received favorably by the government with all the stipulations. It may also become the basis for the establishment of partner relations between the authorities and the large corporations: Each bank will be trying to obtain management control of shares of those enterprises, with which it is working anyhow (Interros and Norilsk Nickel are examples of this). The talks on credit may also galvanize the discussions on special legislation on the financial-industrial groups.

Presently, the slow-moving competition between two laws—one that originated in the Federation Council and one that originated in the State Committee on Industrial Policy—has led only to one perceptible result: The draft law of the chairman of the Finance and Budget Committee of the parliament's upper house has been submitted to the State Duma as a legislative initiative of the Federation Council. It may remain as such for a very long time. However, the existing version of "Gonchar's Law" is quite narrowly tailored and touches only on the problem of the reintegration of the industry of the former USSR—the formation of international (within the limits of the CIS) financial-industrial groups. But the expansion of Russian capital into the near abroad is still being based on intergovernment agreements which almost automatically lift the internal restrictions on the formation of financial-industrial groups.

However, the government's discussions with the banks may be much faster and more productive. As a matter of fact, there are not that many disagreements. First, the restrictions on the physical size of the financial-industrial groups, which may be circumvented only through the Kremlin. Second, the purely banking restriction—not more than a 10-percent share for each participant, which substantially restricts (because of the impossibility of actually controlling an enterprise) the banks' interest in the interpenetration of financial and industrial capital. And finally, third—the ban on the participation in financial-industrial groups of holding companies, in the structure of the capital of which material assets make up less than 50 percent. Two more points: the removal of the ban on cross-ownership of shares and permission to pay taxes based on a group's consolidated balance—these may also be the subjects of talks.

What are the chances of overcoming these disagreements? To put it extremely cautiously, they do exist. After all, sitting at the negotiating table with the government is not the amorphous and sluggish "industrial lobby," but rather, banks which have virtually proven their ability to achieve set goals (be it the pledging of shares or a change in the standards for reserves). Especially since there is already a precedent—the Russian oil companies which managed to subordinate corporative right to the structural changes in the fuel and energy complex.

*Problems of Achieving Economic Stabilization Analyzed

954E1005A Moscow IZVESTIYA (Finansovyye Izvestiya Supplement) in Russian 23 May 95 No 35, p 4

[Article by Mikhail Dmitriyev, deputy director of the Institute of Economic Analysis: "Nonuniformity of Budget Revenues Complicates Process of Stabilization"]

[FBIS Translated Text] In 1995 the Government of Russia found itself closer than ever before to achieving the task of financial stabilization. An analysis of the income and expenditure portions of the federal budget for 1995 shows that, both in the income and in the expenditure portions, it is compiled with a much greater degree of realism than the budgets of preceding years. In the federal budget for 1995, for the first time in three years the relative share of federal budget expenditures in the GDP [gross domestic product] (in comparable structure, i.e., without consideration of expenditures of extra-budgetary funds incorporated into the budget in 1995) declined by 4.5 percent of GDP as compared with the actual level for 1994.

Such a sharp reduction of planned expenditures appears particularly unusual if we recall that the budgets approved for 1993 and 1994 contained expenditures which exceeded the actual level of expenditures for the preceding year by 5-6 percent of GDP. The budget for 1995, on the contrary, contains a certain underestimation of the volume of revenues and expenditures. By income it comprises around 1 percent of GDP, and by expenditures—from 0.5 to 2 percent of GDP.

The real volume of revenues to the federal budget may comprise approximately 14 percent of GDP, and the volume of expenditures—from 19 to 20.5 percent of GDP. In this case, the budget deficit may fluctuate within the margins of 5 to 6.5 percent of GDP. With an estimate of anticipated GDP in the sum of 1,350 trillion rubles [R], the amount of the budget deficit will comprise from R68 to R88 trillion. Most likely, the

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budget deficit will exceed the volume of R73 trillion, which is secured in the federal budget.

Taking into consideration the anticipated financing of the deficit at the expense of international credits, the amount of the budget deficit which must be covered from domestic noninflationary sources may comprise from R22 to R42 trillion, or 1.6-3.1 percent of GDP. Already last year, approximately 2 percent of GDP was financed at the expense of GKO [state short-term bonds] and KO [short-term bonds]. Therefore, the possibility of noninflationary coverage of the deficit from domestic sources in the amount of up to 3 percent of GDP appears quite realistic.

The status of the primary financial markets is favorable to this. In the current year, outside the boundaries of the state securities market, there has evidently been a notable reduction in capacities for effective and not overly risky application of capital. The market in corporate securities has not yet recovered from the crisis it experienced in the second half of 1994. The attractiveness of the currency market will evidently decline as the currency exchange rate stabilizes. Finally, the crisis of the banking sector which is coming to a head during the process of financial stabilization leads to increased risk in operations on the interbank market and placement of funds on deposit. On this background, the state securities market will continue to be highly attractive, thanks primarily to the combination of relative reliability and profitability of investments in state securities.

In the circumstances that have arisen, the main obstacle in the path of financial stabilization becomes not the absolute volume of the budget deficit, but its nonuniformity throughout the course of the year, which is associated with seasonal factors.

According to obligations to the International Monetary Fund that have been assumed by the government and the Central Bank, the quarterly amount of the budget deficit will comprise R9 trillion in the 1st quarter, R16.6 trillion in the 2nd quarter, R26.5 trillion in the 3rd quarter, and R27.2 trillion in the 4th quarter. In fixed prices, the deficit will increase by 1.5 times in the 2nd quarter as compared with the 1st quarter; by 1.4 times in the 3rd quarter as compared with the 2nd quarter; and will decline by 10 percent in the 4th quarter as compared with the 3rd quarter. In current prices, the increase in the deficit in the 2nd and 3rd quarters will be even more significant—by 1.8 and 1.6 times, respectively. In current prices, the volume of financing of the deficit in the 3rd quarter will be three times higher than in the 1st quarter.

If we proceed from these proportions, as well as from the suppositions about uniform financing of the deficit at the expense of IMF credit in the 2nd, 3rd, and 4th quarters and about the receipt of budget-replacing credits from the World Bank no sooner than the end of the 4th quarter, then the need for financing the deficit from domestic sources will appear as presented in the table. In this case, the pessimistic scenario of the deficit in the amount of R88 trillion is computed based on the fact that the entire "above-plan" deficit in the amount of R15 trillion will occur in the second half of the year.

The table indicates that, in view of the factor of seasonality, the 3rd quarter becomes critical for financing the deficit from domestic sources. Financing the deficit in the 3rd quarter will demand an increase in domestic loans as compared with the preceding quarter by 2.6 times according to the official scenario, and by 3.7 times according to the pessimistic scenario, i.e., in case the deficit reaches the maximum anticipated level.

Quarterly federal budget deficit after deduction of foreign credits (trillion rubles)

Year	1st quarter	2nd quarter	3rd quarter	4th quarter
1993	1.68	-0.03	2.5	4.27
1994	9.2	9.3	19.6	23.3
1995 (official estimate)	9	6.1	16	16.7
1995 (pessimistic estimate)	9	6.1	23	23.7

Seasonality in financing the budget deficit is certainly not a phenomenon that is unique for 1995. As we can see from the table, a similar phenomenon was observed also in the preceding years. The data are presented in current prices, although recomputation into fixed prices would not radically change the picture.

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The main reasons for the sharp upsurge in the budget deficit in the 3rd quarter are the expenditures of a seasonal character, which are not subject to carryover to later periods. Among the largest of these are the expenditures for shipping products to the northern regions and financing agricultural work.

In past years the problem of covering the seasonal increase in the deficit was easily resolved: The government attracted the credits of the Central Bank in those volumes it considered necessary. This led to the traditional fall-winter upsurge in inflation, but fully resolved the problem of seasonality of budget expenditures.

This year, the possibility of direct crediting of the budget by the Central Bank in the required amounts is excluded due to the obligations assumed to the IMF. Thus, all the weight of financing the seasonal upsurge in the budget deficit is shifted to the state securities market. However, such a sudden expansion of it in only one quarter appears unrealistic.

It is true, the Central Bank has the right to acquire state securities on the secondary market. However, such a sharp increase in their purchases in the 3rd quarter would not differ in its inflationary consequences from direct emissions crediting of the federal budget. It would lead to another seasonal upsurge in inflation at the end of the year, which would be tantamount to undermining the program of financial stabilization.

A rapid increase in the supply of state securities may encounter a sharp rise in the real interest rate, which would lead to excessive increase in the cost of borrowing. The real interest rate, especially on six-month GKO's, remains overly high as before, and efforts to continue its reduction have led to a sharp decline in the volume of sales.

In order to smooth out the quarterly nonuniformity in borrowing on the domestic market, the government could partially "reserve" the IMF credits received in the 2nd quarter and use them for financing the deficit in the 3rd quarter, compensating them in the 2nd quarter with a higher level of domestic borrowing. However, this contradicts the task of reducing the real interest rates, and would inevitably lead to their increase, making borrowing in the 3rd quarter exorbitantly expensive.

In the 2nd quarter, the government is beginning the distribution of several new types of securities. From the standpoint of increasing state borrowing, their advantage consists of the fact that they are oriented toward new categories of buyers, who had not been covered by GKO's and KO's. However, hope for the sudden growth of revenues from the new instruments is unfounded.

Due to the low level of confidence in the state, the market is inclined to have a cautious attitude toward any new instruments, and will look carefully at them for a long time. Treasury bonds are the only exception to this rule. In the 4th quarter of 1994 alone, the volume of their distribution exceeded 1 percent of the annual GDP. However, this result was obtained primarily due to the compulsory character of their initial distribution. According to the obligations assumed before the IMF, compulsory distribution is prohibited for any new types of state securities.

The flight from the dollar, which may begin as a result of stabilization of the exchange rate, will undoubtedly create an additional demand for state securities. Under conditions of a stable exchange rate of the dollar, they will become a much more attractive alternative to savings in currency. However, at the present time it is rather difficult to evaluate the real scope of such a rechanneling during the 3rd quarter.

It also remains unclear how attractive the specific assortment of securities which the Ministry of Finance is ready to offer will be for the holders of dollar savings. Here we should consider the fact that mass distribution of securities among the population encounters, aside from mistrust and high interest rates, also the unpreparedness of the distribution network for large volumes of retail trade and high transaction costs.

The recent initiatives of the Central Bank in expanding mandatory reserves of commercial bank resources also evoke much apprehension. The purpose of these initiatives, obviously, is not to increase the reliability of the commercial banks. From the standpoint of increasing reliability these measures will have the opposite effect, since they will limit access of commercial banks to monetary resources, will make it more expensive for them to attract these resources, and thereby will aggravate the financial difficulties of the banking sector. This initiative may sooner be interpreted as an effort by the Central Bank to edge out the primary competitors of the state on the monetary loan market, so as to clear the field for massive build-up of the state debt in the 3rd quarter, including with the aid of new categories of securities.

Such a means of overcoming the crisis in state borrowing in the 3rd quarter is notable not only in its antimarket directionality, when the state discriminates against private competitors on the market, changing the rules of the game in its own favor and thereby undermining the principles of public accord. The short-sightedness of such a policy becomes evident in light of the banking crisis, which is coming to a head in the process of financial stabilization. Having resolved the problems of borrowing in the 3rd quarter at the expense of the

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commercial banks, the state will make the onset of this crisis even more probable. However, if this crisis should ensue in the second half of 1995, the expenditures of the Central Bank for refinancing the banking system, which will have to be made by means of emissions, will greatly surpass the tactical gains of the 3rd quarter and will undermine the prospects for monetary stability for all of 1996.

Under these circumstances, the initiative by the consortium of Russian banks to grant the government a loan in the amount of R9 trillion, using first-class stock in privatized enterprises as collateral (if the reports of this correspond to reality), could truly become a "bail-out" for the program of financial stabilization. If such credit were granted during the 3rd quarter, then the problem of nonrhythmic financing in the 3rd quarter would be resolved without the use of inflationary sources.

However, in the absence of this or other nontraditional sources of financing the deficit, the probability of breakdown of the program of financial stabilization in the second half of the year remains high. The emissions borrowing from the Central Bank which is inevitable in this case will give rise to a chain reaction of consequences, precluding the success of stabilization.

Revenue from IMF credits will most likely be halted. To replace them, additional inflationary financing of the deficit by the Central Bank in the second half of the year will be required. The result of this will be the retention of high inflation not only until the end of 1995, but also in the first half of 1996. Moreover, it will be much more difficult to repeat an analogous effort at stabilization in the following year, since the failure of stabilization in 1995 will undermine trust in the government for a long time to come, both within the country and on the part of its international creditors.

Thus, the 3rd quarter is decisive for the success of the program of stabilization. A sharp upsurge in domestic borrowing in the 3rd quarter may become the stumbling block over which the program of stabilization in 1995 may trip. If this happens, it is unlikely that it can be pieced together again.

*Trend Toward Fusion of Private, State Capital Seen

954E1009A Moscow KOMMERSANT-DAILY in Russian 19 May 95 p 5

[Article by Yu. Katsman: "Private Bank Capital Growing Together With the State"]

[FBIS Translated Text] **The government will purchase a block of shares worth 40 billion rubles [R] from the new 100-billion emission of the Natsionalnyy Kredit Bank, as a result of which it will own 16 percent of the bank's capital. Recently the government also acquired a block of shares at the Menatep Bank. These events provide grounds to talk about a certain tendency toward the merging together of private bank capital and the state.**

Realistically the purchase of stock of the Natsionalnyy Kredit Bank by the government (or, more precisely, by the government as represented by the Ministry of Finance) will take place after registration of the new emission prospectus by the bank. Presently the charter fund of the bank amounts to R150 billion and by purchasing the shares the government will acquire 16 percent of the bank's capital.

Despite the fact that this is not a controlling block of shares, it will still have a decisive influence in resolving questions pertaining to the operation of the bank having a direct connection with the competence of the government. The representative of the government on the bank board of directors will have the right of veto concerning questions connected in one way or another with the utilization of funds of the federal budget (such a right is already secured in the agreement). Thus, control over the utilization of government money promises to be very strict.

The sale of a block of shares of a private bank to the government gives rise to at least two questions. The first one is what does the government need this for? In responding to this Stanislav Nikitin, deputy chairman of the board of the Natsionalnyy Kredit Bank, cited Poland as an example. The privatization of former specialized banks in Poland took place gradually and in parallel with privatization as a whole. The private sector of the economy was growing, as was the degree of denationalization of the banks. In Russia, however, all that took place in a different manner. Private commercial banks developed very rapidly, but 90 percent of the industrial enterprises are in essence state-owned to this day. At any rate, their ability to operate depends to a certain measure on state financing. Under these conditions the natural desire of the government to exercise control and effective management of its property is quite logical. But how? By participation in the capital of banks through which that government money passes.

The second question is why has the government favored especially the Menatep and Natsionalnyy Kredit? Stanislav Nikitin believes: "Here everything depends on visibility. The more economically active the bank, the higher the probability that such activity will be noticed." He, however, did not exclude the influence of the "political factor", but he refused to go into any detail on this

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topic stating that such matters were beyond his competence.

Be that as it may, the relations between Natsionalnyy Kredit Bank and the government are very close. The bank is authorized to conduct operations with domestic currency bonds and other state securities and operations with government debts, it can perform the functions of an investment agent (starting with compilation of the business plan of state investment projects and ending with their servicing), and it is the agent of the government in investment programs, while participating in resolving the problem of bankruptcy of enterprises and elaborating the concept of financial-industrial groups; this list can be continued. In other words the emergence of the government as one of the shareholders of the Natsionalnyy Kredit Bank may be considered as a logical outcome of almost two years of collaboration.

The same may be said about the Menatep Bank as well as about a number of other commercial banks which also take an active part in various government programs. Therefore it is more than likely that this process will not stop with the Menatep or Natsionalnyy Kredit Bank. At the same time the banks themselves will probably not be particularly opposed to the participation of government in their capital. The presence of the government among shareholders of a bank, first of all, to a certain degree evidences its "recognition by the government (and that means enhanced prestige in the eyes of the clients); second, it facilities relations of a Russian bank with international financial organizations; and, third, this type of transaction is a peculiar kind of a state order and there is a fierce struggle going on for state orders throughout the world.

*New Types of Securities To Be Introduced

954E1018A Moscow KOMMERSANT-DAILY in Russian 24 May 95 p 5

[Interview with Bella Zlatkis, head of the Department of Securities and the Financial Market, by KOMMERSANT-DAILY correspondent: "Bella Zlatkis: Lately the Finance Ministry Has Had No Problem Getting Money'"; place and date not given]

[FBIS Translated Text] ***Some weeks ago, the Finance Ministry, through Securities Department Head Bella Zlatkis, announced that three new types of state securities would be put into circulation this summer—OFZ's [federal loan funds], "gold" certificates, and low-face-value currency bonds. This was followed in May by the government's decree on the general terms of issue of OFZ's and the President's edict on the depositing of gold to secure gold certificates. It is not surprising, by the way, that the Finance Ministry's projects have been given the green light in the government and the President's administration. The huge budget deficit is forcing fiscal agencies to find new ways to attract funds. The danger, however, is that the state is turning into a giant "financial vacuum cleaner" and sucking up more and more money, leaving nothing—or practically nothing—for investment. K-D's interview with Ms Zlatkis began with a discussion of that problem.***

K-D: Bella Ilinichna, soon the Finance Ministry plans to issue several new types of state securities at once. Aren't you afraid the Ministry will have some difficulty placing them due to limited demand?

Bella Zlatkis: Lately the Ministry has had no trouble finding money. Our data indicate that a relatively small portion of banks' credit resources are invested in state securities now. In addition, we are counting on the population's and other investors' funds taking greater part in the state securities market.

K-D: Do you envision getting more foreigners to invest in the state securities market?

B. Z.:I'm rather conservative when it comes to foreign investors—limitations of that sort are practiced all over the world. Still, I will allow the presence of foreigners in the state securities market, though on a limited scale.

K-D: Isn't it possible that in order to "popularize" state securities they will be allowed to be counted in commercial banks' reserve funds? Such a practice exists in many Western countries.

B. Z.: It is true that state bonds are counted among commercial banks' reserves, but not everywhere in the world. But that is not true here yet. On the one hand, counting state bonds would enable the banks to release additional funds for investment, for example. But the Central Bank (CB) is quite concerned about fighting inflation now and is using reserves as one mechanism to regulate the monetary system. And at present, evidently, the CB has no reason to substitute state securities for monies that are to be included in obligatory reserve funds.

K-D: But what is going to happen to already-existing state securities? Recent reports that treasury bonds are to be ended soon have been widely discussed.

B. Z.: The idea of treasury bonds is good, and we don't intend to discard it. Of course a new security could be designed, a replacement for treasury bonds, but we're not going to do it. And here's why. Reports about the possible abolition of treasury bonds were started because the IMF didn't like the earnings these securities are making [40 percent per annum in rubles—K-D].

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According to Fund specialists, treasury bonds are not market paper, because the rates on them are not in accord with rates in the financial market. The current situation in the financial market, however, indicates that rates of inflation are constantly going down. And if the government's forecasts of the inflation level by year's end prove correct (and I believe they will), there will be no more necessity to remove treasury bonds from circulation, because the level of interest rates in the market will get in line with the face-value profitability of treasury bonds.

K-D: Not long ago Dmitriy Vasilyev, the executive director of the Federal Commission on Securities, told K-D: "If something happens in the securities market, including state securities, the Commission's officers will answer for it." Can the Commission intervene in the actions of the Finance Ministry and the CB in matters of regulating the state securities market?

B. Z.: In all countries there are two state participants in the state debentures market—the Finance Ministry and the Central Bank. And no matter what anybody says, that situation will be retained in our market—because of the nature of the issuance of securities by two basic financial organizations which are responsible for the budget and monetary circulation. Certainly, though, if the Commission wants to take part in the market or intervene professionally in our activity—if, for example, it has a better idea of how to operate in the market—we will not do anything to prevent it; we will be for it. But I have never heard of such a practice in the world. The issuing body—the Finance Ministry—bears all the responsibility.

K-D: What are relations like in the Finance Ministry-CB-Federal Commission triangle?

B. Z.: We have cordial relations with the CB. There may be difficult situations, of course, but we always find a compromise. Right now we have no relations with the Federal Commission, which is not, itself, very large, and we haven't had occasion to cross one another. Our dealings with Dmitriy Vasilyev are businesslike. Moreover, we hope that the creation of the Federal Commission will relieve the Finance Ministry of certain functions. The Commission could start the drafting of standards and rules on corporate securities. After all, four of the Finance Ministry's first-category economists are busy with corporate securities, and frankly we could use them in other jobs.

Let the Federal Commission take its niche in the market—the one which the President assigned to it in his edict. For example, let it start regulating the registrars and depositaries, which the Finance Ministry has never been involved with. But we have already drawn up certain standards and rules for participants in the market and submitted them to the government and the FKTsB [unidentified], which may find it useful to use them in its further activity.

K-D: You say the Finance Ministry and the Commission have not yet "crossed one another." But everyone knows about disagreements between these organizations concerning certain provisions of the draft law "On Securities." The Commission, in particular, is in favor of the full development of self-regulating organizations. The Ministry, on the other hand, insists on removing the draft's provision requiring the self-regulating organizations' licensing of participants in the share market. Why?

B. Z.: It seems to me that's not the most important question. The Ministry is not against self-regulating organizations (and did not insist on removing that section); they have to be there. But everything in its time. And we think that the time is not yet at hand.

K-D: Does Russia need the institution of investment banks? Why is the CB against creating them?

B. Z.:I don't know why. We have been trying to resolve the question with the CB since 1990. In principle the CB is not against investment banks. But the creation of a separate institution of investment banks and the laws governing them would lead to restrictions on the functions of the commercial banks, which would lose the right to operate in the securities market. I think that the stability of our banking system, despite the toughening of the CB's policy, in particular the decision to create reserves just in case of possible losses from changes in the securities exchange rate, is still lower than if the institution of investment banks were in place, as the latter would assume part of the risk. In general I favor the American share market system.

K-D: Who is to regulate municipal bonds?

B. Z.: The Federal Commission and the Finance Ministry, I hope. On the one hand, the securities of subjects of the federation have no relation to the federal budget. Still, who if not the Finance Ministry should know about their financial condition? The Commission can't do without us.

K-D: But who is going to control the licensing of participants in the share market? Who will register the prospectuses of new joint stock companies?

B. Z.: The Commission, I think. For a start it will draft the standards of the licensing and then issue authorization proper. Right now, authorizations are issued by organizations empowered by the Finance Ministry. When it comes prospectuses, it seems to

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me that in principle it doesn't matter who registers them. But this function could be left to the Ministry; historically, issue prospectuses are registered locally, and, naturally, the Finance Ministry has acquired certain powers and functions. On the other hand, though, if the Federal Commission should assume that function, it will be easier on us.

COMMENTS

Overall, the interview with the head of the Finance Ministry's Department of Securities is infused with daring and optimism. In fact, as long as the state can't make ends meet and there is a huge budget deficit, the people organizing the issuance of state securities won't be out of work. At the same time, the Finance Ministry clearly does not intend to concede to anyone the right to set procedures in this market.

It must be pointed out, moreover, that Ms Zlatkis presents a very reasonable plan for the sharing of powers between the Finance Ministry and the CB, on the one hand, and the Federal Commission for Securities on the other. Contrary to the idea of the Federal Commission's "global responsibility," she proposes a division of the securities market on the principle of "state-nonstate." Let the Finance Ministry and the CB keep the state securities while the Commission takes over corporate securities, including the registration of prospectuses, depositaries, registrar companies, and even (broad gesture), in part, municipal loans.

One thing that surprised us was Ms Zlatkis's pro-American orientation on the matter of investment banks and the infrastructure of the securities market in general. In this regard, curiously, the head of the Finance Ministry's Department of Securities is in "solidarity" with the Federal Commission on Securities and is in opposition to Andrey Kozlov, the deputy chairman of the CB and head of the CB's Securities Office, who has shown himself to be in favor of the German way of developing the share market.

FINANCE DEPARTMENT

***Roundup Report on Budget Process, Prospects for 1996**

954E1007A Moscow KOMMERSANT-DAILY in Russian 19 May 95 pp 1, 2

[Article by KOMMERSANT-DAILY's Economic Policy Department: "Panel Budget-Building: the Budget Process in Russia"]

[FBIS Translated Text] **Amusing metamorphoses occurred over the past week involving First Deputy Prime Minister Oleg Soskovets. Whereas, 7 days ago, the entire government congratulated him on his birthday, yesterday, he had to honor a modest bureaucrat of the government's staff: Construction Department Chief Petr Surov was awarded the Badge of Honor for the rapid restoration of the government residence and work in Chechnya. This was the beginning of the government meeting, at which the outline of the 1996 budget was approved unprecedentedly early for Russia. Of course, still ahead are the protracted discussions both within the government and in the parliament (which, despite the government's optimism, may not even manage to adopt the budget prior to the new year), but it is already clear now that the basic parameters of the next federal budget will be approximately as follow: revenues — 273 trillion rubles [R], expenditures — R349 trillion, deficit — R76 trillion and annual inflation — 23-25 percent. In other respects, however, the 1996 budget is surprisingly similar to its predecessor.**

The Budget in Russia Is Less Than a Budget

According to First Deputy Finance Minister Vladimir Petrov, after the government's approval of the budget outline, the next step in the 1996 budget process will be the sending of instructions to the ministries (in essence, this is the ministers' call to the budget trough). This will occur after 3 days, and in just 2 weeks time, they are supposed to send their budget requests to Ilinka 12. The Minfin [Ministry of Finance] is fully aware that it will not meet the 15-June deadline set by the president for the budget's submission to the parliament. This is why, in the middle of June, only the outline and the "protobudget" — the spending for consolidated items — for state administration, foreign economic activities, defense, etc., will be sent to the State Duma. But the budget will be completely ready for submission to the parliament's lower house by 20 July.

Thus, in form, Russia's budget process is obviously similar to the Western models. In accordance with the laws, in Russia, the preparation of the budget, exactly as it is in the USA, is supposed to begin 18 months prior to the beginning of the year (the fact that this deadline has never been met and is unlikely to be before 1998 is another matter) and it is supposed to be adopted prior to the beginning of the year. Exactly just as in other countries, the compilation of the budget is handled by the Ministry of Finance (and, in March of last year, a finance and budget management office of the president's administration was also established, which was again reminiscent of the USA's experience). During this budget's compilation process, all of Russia's bureaucrats, just like their colleagues abroad, try to request a bit more, while not being the least bit concerned about where this money is to come from,

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and, as a result, the expenditures in any event turn out to be much larger than the revenues. In Russia, just like throughout the entire world, there is rigid regulation of the budget's journey through the parliament, which, just like everywhere, does not guarantee at all that the deputies will be able to examine this budget.

The difference is that, in Russia, even an uncomplicated budget procedure has still not ever fully matured. Up till now, the annual budget was adopted either generally after the end of the budget year or in the middle of it. The fact that the 1995 budget was adopted in the spring, by Russia's standards, is actually an outstanding accomplishment, however, from the standpoint of world practice, even in this year, the budget procedure was constantly violated.

It is true that there are also more basic differences. Experience has shown that, under the conditions of complete state control over the financial system, Russia's authorities could live without any budget whatsoever, covering all expenditures through Central Bank credits. Moreover, it is preceisely these totally unsecured credits which the Russian state traditionally used to cover the budget deficit, which the authorities in the majority of civilized countries simply cannot do. In this instance, Russia's authorities should not be particularly reproached — under the conditions of the financial crisis and the shortage of private capital, there is nothing else left to do.

It is true that, this year, under pressure from international financial organizations, for the first time, Russia decided to refrain from using an emission to cover the deficit and to count on the floating of state securities, privatization and foreign loans — which is making Russia's budget finally similar to Western ones. However, it should be remembered that, in a crisis-ridden country, private national capital will hardly be able to help the budget on the same scale as in thriving countries. As for private Western capital, it is harder and harder for Russia to count on it precisely because of the other countries' budget policies — it is clear that foreign investors will be more inclined to lend money to the budgets of Western countries and to invest assets in Western European privatization than to help crisis-ridden Russia.

The Agrarians Are Keeping Confidently Silent

However, the Russian government, as before, is counting precisely on such "noninflationary" sources to pay off the deficit, which will amount to around 4 percent of the VVP [Gross Domestic Product] next year. But, before shifting properly to the "Basic Directions of the Budget Policy in 1996," it must be noted that it is necessary to approach all government forecasts with the well-known dose of skepticism. In 1995, just as in the preceding years, the government ran into the fact that the forecasts made by it have proven to be incorrect even after a very short interval of time. According to the calculations made at the end of April, the GDP this year will amount to R1,450 trillion, which is R520 trillion more than what the 1995 budget was based on. The almost 50-percent error is, all the same, a very large one for the assembly of government experts and computers.

In this connection, Sergey Glazyev's statements, which seemed unfounded even quite recently, that the government will receive around R50 trillion in "unanticipated" revenues, may even turn out to be exceeded: judging by all appearances, the inflation bonus will amount to from R25 to R70 trillion. This extra honorarium has both positive and negative aspects to an equal degree. It is positive in the sense that it creates a "ruble" filling for the statements of Anatoliy Chubays who never tires of repeating that this year's budget will be fulfilled completely, while its deficit will turn out to be less (in terms of the percentage) than was assumed. However, its negative qualities may emerge at the beginning of the discussions on how to spend the unanticipated revenues (Sergey Glazyev and Yegor Gaydar have already made it clear that the special stipulation about this in the law on the budget does not suit them).

If an attempt were made to pick out the characteristic of next year's budget most frequently encountered in official statements, then it would perhaps be the "continuity" with 1995's budget policy. The continuity in this instance runs to the absurd — the 1996 budget differs from the 1995 budget just as much as the five-story buildings built a year apart in Moscow's Cheremushki section differ from one another. This is evidently why Oleg Soskovets, who presided yesterday at the meeting of the government, decided to nip all discussions in the bud. Having given three ministers a pro forma opportunity to speak in the debates, with the words "comrades, we are discussing after all the outline, but not the budget itself," he stopped the doleful complaints about the impecuniosity of the sectorial ministries and the scientific-like speeches of the government's "economic" members.

As for the specific items of the next budget, the first thing which is evident is the government's abandonment of the idea, very popular last year, that, beginning already as of 1996, Russia will not need to resort to foreign borrowing to cover the deficit. In place of this, adopted once again has been the more pragmatic thesis which former Finance Minister Sergey Dubinin set forth in a condensed version in a conversation with a KOMMERSANT-DAILY correspondent: "No one will strive for credits for the sake of credits. If they are given at interest rates more advantageous than we can

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obtain now in the domestic market, then any financier will say: 'Let us ask there where it is cheaper.'" It is true that Vladimir Petrov was at least compelled to save face somehow and stated that the 1996 budget's foreign dependence is somewhat less than in 1995 — only 40 percent of the deficit, instead of 58 percent, will be funded through foreign loans. Be that as it may, on next year's budget standard, the abbreviation EFF (Extended Fund Facilities — a new type of MVF [International Monetary Fund] credit, which makes it possible to obtain $10 billion over 3 years) will replace 1993's STF and 1994's stand-by. In all, however, it is being contemplated that $8.7 billion in loans will be borrowed.

Of course, during the preparation of any budget letter from the sectorial ministries, the matter of the sources for covering the budget deficit is the last thing to cause worry. As a matter of fact, almost the main (even if concealed from outside eyes) element of the budget process is the submission and coordination of the sectors' budget requests — this is precisely where, to the greatest extent, the lobbyist nature of Russia's economy becomes apparent. It is perfectly natural that the financial crisis substantially intensifies the lobbyist struggle between the various sectors and individual enterprises to obtain budget funding. As soon as the state cannot help the enterprises with anything except for depreciating money, it becomes the enterprises' task to squeeze out as much of this money as possible. In principle, the government could satisfy all these requests — however, this would make the state expenditures, the deficit and inflation really too scandalous and this is why the authorities insist as much as possible that the enterprises' requests be reasonable. Such restrictions prompt the recipients of budget funding to struggle even more fiercely in the hope of winning at the expense of competitors.

Table 1. Sources for Covering the Deficit

1. Domestic Borrowing	R41 Trillion
2. Foreign Borrowing	R31 Trillion
3. Central Bank Transactions in the Secondary State Securities Market	The Remainder

Table 2. Proposed Basic Parameters of 1996 Federal Budget

1. Revenues	R273 Trillion
2. Expenditures	R349 Trillion
3. Deficit	R76 Trillion

It is worth noting that the initial budget requests last year amounted to 90 percent of the GDP. It is true that, during the process of the Ministry of Finance's work with the departments, they declined almost by a factor of 5 (to 21 percent). There can be almost no doubt that the pattern will be almost the same this year as well — however, the first speech of Deputy Defense Minister Andrey Kokoshin indicated that the military will be dissatisfied beforehand by the proposed level of funding, no matter what it is. However, Kokoshkin's speech, to a certain degree, was a mere formality — the experience of past years and, in particular, of 1995 has shown that the military and the agrarians, strictly speaking, have nothing to worry about — after the parliamentary debates, their requests were sequestered to the least extent. Highly significant in this sense was the behavior yesterday of the government's "agrarian" members — Aleksandr Zaveryukha and Aleksandr Nazarchuk cold-bloodedly maintained silence during the entire meeting.

However, in the end, the Ministry of Finance was forced to acknowledge yesterday that it is experiencing large problems with the "spending maneuver" — the redistribution of the expenditures in such a way that the state's basic expenses go for socially significant projects. At the same time, the Ministry of Finance's proposal that state finances support only "export-oriented high-technology sectors" (oil and gas, metallurgy and hi-tech [sic] sectors) immediately evoked an emotional speech from the chairman of the Federation Council's Budget and Finance Committee, Nikolay Gonchar: "you would support 15-20 percent of industry, but what is to be done with the rest?"

[Boxed material follows]

A Socialist Budget: Easy To Adopt and Easy To Forget

In that economic management system, majestic in its imperial sluggishness, which existed in the USSR, the budget process was, from the modern-day viewpoint, a procedure which was boring and not especially burdensome for the authorities: a simple distribution of resources and the bringing to the enterprises of basically physical plan indicators. Under the conditions of the

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relative economic prosperity caused by the oil boom, the state did not experience any special shortage of resources — if they were lacking, centralized imported was used. After oil prices fell at the beginning of the eighties, the abundance of resources was maintained by large-scale Western loans. In the West, the USSR was always viewed as a first-class borrower. First-class to such an extent that, at the beginning of "Gorbachev's Six-Year-Period," one of the Swiss bankers, in the presence of the press, was not afraid to acknowledge: "If Mikhail Gorbachev asked me for a million (francs — KOMMERSANT-DAILY), I would give them to him without a receipt." Of course, just a bit later, he regretted his words.

A struggle for resources, naturally, also existed in the communist economy. A fierce one at that: the members of the Politburo managed to defend the interests of the spheres watched over by them. However, in any event, when necessary (for example, if the matter pertained to the army or agriculture), problems were solved quite rapidly. In the first instance, it was difficult to oppose Defense Minister Dmitriy Ustinov. In the second, this was also quite useless — Leonid Brezhnev himself lobbied for agriculture. Even if difficulties arose with the shaping of the physical indicators in a monetary form, this was exclusively because of the colossal labor-intensiveness of this process (in a planned economy, hundreds of thousands of commodity positions were taken into account). This is why the budget was made up from the technical side without any special problems. Especially since, under the conditions of a planned economy, in principle, it was always balanced. If, at any moment, the threat of it becoming unbalanced appeared, the matter was solved cardinally and some items (we remember the famous "residual principle") went under the knife. This is why "squeezing out" due funds from the Gosplan [State Planning Committee], the Ministry of Finance and the sectorial ministries was always one of the most important functions of a Soviet manager.

The real problems in the union budget began after the abolition in the second half of the eighties of the regulator for the wage fund, which established its dependence (of course, a catch-up one) on labor productivity. Properly speaking, this also became the most powerful inflationary factor in the entire history of the post-war Soviet economy. Inasmuch as the matters of monetary emission were no longer decided during Gorbachev's time as they had been in the time of the Stalinist "Administrative System," the state bank's credit expansion floodgates were opened wide (the decisions of the republics cut loose in 1990 and 1991 not to transfer taxes to the union budget only pushed it further). Nevertheless, on paper, even the last union budget of 1991 looked quite decent. To the questions of the dumbfounded deputies about the lack of visible signs of a serious budget deficit, Prime Minister Valentin Pavlov responded with disarming frankness: "You want me to go and tell you everything!" However, the meticulous Western analysts had turned their attention somewhat earlier to the increase in the share in the budget's income section of the item "Other Revenues." Their suspicion turned out to be correct — in essence, it should have been called "State Bank Emission." [End of boxed material]

*Urals Financial-Investment Corporation Near Collapse

954E1011A Moscow KOMMERSANT-DAILY in Russian 20 May 95 p 2

[Article by Viktor Smirnov: "INVUR Has Produced Nothing but Losses"]

[FBIS Translated Text] **One remarkable result of Uralians' efforts toward independence not only in political but also economic life was the creation of the INVUR Financial-Investment Corporation ("Investments in the Urals") in Yekaterinburg in the winter of 1993. It was intended to become the "sword and shield" of Urals industrial and financial capital in competition with Moscow. Time has shown, however, that INVUR's accumulated potential (not only economic but also political) has proved insufficient to start a real structural perestroyka of the regional economy after the completion of privatization. And now it appears local politicians are willing to bury their brainchild with their own hands. An audit [auditorskaya proverka] initiated by the administration of Sverdlovsk Oblast on the threshold of the corporation stockholders' meeting gives grounds for these assumptions.**

Even pensioners didn't feel like helping INVUR

The fate of INVUR, the biggest financial investment corporation in the Urals, is instructive. It is not the first attempt by administrative bodies to artificially invigorate investment processes through a network of major state (or semi-state) financial structures. The oblast administration registered the corporation on 30 December 1993, with a charter capital of 990 million rubles, with the intention of using it to promote investments in more or less promising enterprises of the region, engaging in bill discounting to "take account of industrialists' interests," and also combining already-existing financial-leasing and banking structures and credit-mortgage institutions and creating new ones. In addition, INVUR's plans also included the promotion of venture business in

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the Urals, engaging in securities transactions and implementing serious reforms in foreign economic relations. In particular, in order to save local enterprises from the necessity of turning to Moscow banks for credit, plans were made to introduce elements of export credits in the Urals.

But the corporation fell into a crisis before it even got down to the basic activity. The audit revealed that for nine months in 1994 the enterprise had no sales accounts, and no profit. Moreover, in the fourth quarter of last year (that is, exactly a year after it was founded), there were losses in the amount of 148 million rubles. The company's directors account for it by the fact that almost the whole year was spent placing INVUR's stock issue.

Originally the shares were placed among the 12 founders at a face value of 10,000 rubles. The company was formed by the Association of Economic Interaction of Oblasts and Republics of the Urals Region, the government of Sverdlovsk Oblast, the administration of Yekaterinburg, a local nonferrous metals processing plant, the Urals Gold and Platinum Company, Uralpromstroybank, Sverdlsotsbank, the Urals Insurance Company, the Verkh-Isetskiy Metallurgy Plant AOOT [unidentified] and also Uraltransgaz AO, the Gold-Platinum Bank, and the State Investment Corporation. The controlling package of shares—51 percent—belonged to the oblast government.

At first the company's plans were really ambitious—a month after it was formed it decided to increase its charter capital 150-fold. But of the 150 billion rubles announced in January 1994 it only managed to muster 49 billion. Of that amount, the corporation registered a substantial part (over 20 billion rubles) as contributions to the charter capital; this is in conflict with the "Statutes on Bookkeeping and Accounting in the Russian Federation," No 10, dated 20 March 92. It also failed to attract "rank-and-file investors" among the population, from which they hoped to get 15 billion rubles. Efforts to overcome Uralians' passivity by means of a special propaganda campaign also failed—for example, pensioners were offered preferred stocks at a 30-percent discount with earnings of 300 percent per year.

Independent Urals investment companies which at first expressed readiness to invest another 15 billion rubles quickly cooled to the project. Eighty billion was to consist of property, securities, and also enterprise debentures. However, the oblast administration's formation of its own share in the charter capital from shares of privatized enterprises which were assigned for investment auctions provoked sharp resistance on the part of enterprise executives.

In short, the financial turmoil snowballed. The corporation was unable to pay its loans obtained "for commercial purposes and the organization of the issue campaign." All that was paid on time—and only partly at that--was the interest on credit, 680 million rubles. As a result, the corporation gave up its license to deal with securities in the share market, which led to the formation of unclaimed receivables in the amount of 137 million rubles. In March 1995 it committed "fund suicide" and erased all the computer files with the stockholders' list. By April 1995 the corporation's indebtedness to the budget exceeded 1.7 billion rubles.

INVUR, Gosinkor, INVUR again, and so on ad infinitum

Essentially INVUR's financial difficulties reflected the general crisis of this semi-state outfit, whose real causes are rooted in politics. The brainchild of then-governor Eduard Rossel, it had no chance to survive under the new oblast administration (remember, the controlling shares belong to the oblast government). The first signs of the regional authority's cooling toward the corporation emerged in October 1994, when the Sverdlovsk Oblast administration approved an agreement with Gosinkor "On Joint Activities To Develop Activity in This Region and Implement Structural Restructuring of Economic Complexes in the Course of Formation of Joint Stock Companies and Privatization of the State Sector of the Economy and Joint Foreign Economic Activity." By that time, Moscow had had it with the work (or, more accurately, the inaction) of Gosinkor—the "President's Friend's Corporation." For this reason, Gosinkor was obliged to demonstrate superactivity in the Head of State's homeland, even by sacrificing the money already contributed to INVUR. The content of the cooperation program indicated directly that the local administration was trying to shift all of INVUR's functions of servicing the investment process in the region to the federal structure.

The appearance of a major governmental agent in Sverdlovsk Oblast, represented by Gosinkor with its federal powers, revived the local administration's hopes for a reinvigoration of the investment process. These hopes were based on the fact that Gosinkor promised to regard Sverdlovsk Oblast as a priority zone for insuring investments, including insurance against political risks. In addition, in accordance with the joint activity program the federal corporation pledged to make direct capital investments in the region's enterprises from its own funds, and also to channel all earnings from the implementation of joint projects into reinvestment. The

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oblast authorities, in turn, pledged to give their partner most-favored status.

Gosinkor was given the priority right to invest non-budget funds; the corporation was allocated export quotas whose earnings must go to implement investment projects of the oblast, and was granted licenses on preferential terms for the purchase and delivery of socially essential imported food products into the oblast. Gosinkor outfits operating in the oblast were given tax breaks at the expense of the local budget. These privileges gave Gosinkor a political-economic head start over INVUR.

It can be resuscitated. But it won't live

And so, INVUR's death sentence has just about been signed. Of course the company still has the theoretical chance to come down off the scaffold on its own. Sverdlovsk Oblast's gubernatorial elections are scheduled for August. And if Eduard Rossel wins, the corporation will probably survive. But Rossel's election chances, which seemed quite good a couple of days ago, were somewhat dampened yesterday. A local entrepreneur and chief of the Central Urals AO named Malik Gaysini, who says he owns shares in 100 local enterprises, has declared that he is ready to accommodate "numerous requests by directors and declare his candidacy for the post of governor." It is hard to estimate his chances right now; they probably aren't very great. The support of any candidate by "the protector of ordinary directors" can have substantial influence on the outcome.

However, regardless of who does become the governor—Rossel, current governor Aleksey Strakhov, or someone else—it is not very likely that the permanent crisis in such state structures is going to be solved. Because of the acute financial-economic crisis it is experiencing, the state (whether represented by the federal or regional governments) cannot provide substantial budget support to such companies, but without that support there's not much use counting on private capital.

*Banks Association Lobbying for Commercial Banks

954E0968A Moscow KOMMERSANT-DAILY in Russian 12 May 95 p 5

[Article by Yaroslav Skvortsov: "How the Interests of Commercial Banks Are Lobbied in Russia"]

[FBIS Translated Text] **The introduction by the Central Bank at the end of March of new rules of obligatory reservation evoked a barrage of criticism on the part of commercial banks. The Association of Russian Banks (ARB) played a special role in this campaign of protests. Not having withstood such a strong pressure on the part of bankers, the Central Bank was forced to soften its position somewhat, which gave reason to talk about the new success of the banking lobby. Yaroslav Skvortsov, special correspondent of KOMMERSANT-DAILY, tried to examine how the ARB manages to protect the interests of commercial banks and whether, in general, a banking lobby exists in Russia.**

In brief, the history of the appearance of the ARB—a banking association claiming the right to be considered national—is as follows: In a locality near Moscow in spring of 1989 a meeting of bankers was held, which initiated the All-Union Association of Commercial Banks. Among its founders there were also many present ARB members, including Yuriy Agapov, present member of the ARB council, chairman of the board of Kredo-Bank, and Sergey Yegorov, ARB president, who at that time worked as adviser to the chairman of the USSR State Bank. The association existed for about one year. Two years later (in March 1991) the Moscow Banking Union and the Russian Banking Association, which had been formed by that time, were founders of the ARB.

According to the charter, the ARB is a nonstate noncommercial organization, which unites banks and other credit institutions, as well as organizations whose activity is connected with the functioning of Russia's credit and monetary system. Protecting the rights and legitimate interests of its members and ensuring the coordination of the efforts of banks and other institutions in the accomplishment of tasks facing the country's credit and monetary system are the basic aims of the ARB. In order to accomplish the indicated tasks, the ARB, in particular, coordinates its activity with the Bank of Russia and represents the interests of banks in bodies of power and administration. The congress convened by the association council no less rarely than once every three years is the supreme body of the ARB. At present more than 1,000 banks are ARB members (the charter permits membership in the association of banks and institutions of other countries). The amount of membership dues is from 4 to 16 million rubles (depending on the amount of the paid authorized capital).

Former State Bank Officials Run the Show in the ARB

The management of the ARB consists primarily of former officials of the system of the USSR State Bank. Sergey Yegorov, president of the association, was from 1975 through 1988 manager of the Russian Office of the USSR State Bank (Russian State Bank). Mikhail Bazarya, ARB executive director-chief of the

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Department of Banks, whose total length of service in the State Bank system is 47 years, worked there in the post of deputy manager from 1960 through 1987. Vyacheslav Zakharov, ARB executive vice president, also worked in the Planning Administration of the Russian State Bank. It is interesting that whereas in the banking circles Sergey Yefimovich has a reputation for being a joker and a wit, Vyacheslav Sergeyevich is called an intellectual. It is noteworthy that Zakharov is a doctor of sciences and a professor (we would like to note that this is a rare phenomenon among present Russian bankers). Both dissertations were defended in the Academy of Finance under Russia's Government in the department of the late Vladimir Gerashchenko, professor, doctor of economic sciences. Two former Union deputy ministers—Vitaliy Sidorov, former USSR deputy minister of internal affairs, ARB executive director of security matters, and Vladimir Rodyushkin, former USSR deputy minister of finance, who holds the post of deputy chief of the Department of Banks in the ARB—also work in the ARB council.

In addition to "old" State Bank personnel, the association has also "absorbed" the new generation of bankers. Among them there are "active" bankers—Vladimir Vinogradov (Inkombank), Vladimir Gusinskiy (Most-Bank), Vladislav Sudakov (Moscow International Bank), Aleksandr Smolenskiy (SBS) [expansion not given], Petr Korotkov (Russian National Commercial Bank), and Garegin Tosunyan (Tekhnobank). In the association each of these bankers is assigned his own "work front." For example, Vladimir Gusinskiy deals with bank security matters and Petr Korotkov, with publishing activity. Garegin Tosunyan, Tekhnobank president, who is ARB first vice president, achieved wide fame in banking circles. Incidentally, being a candidate of physico-mathematical and juridical sciences, Garegin Ashotovich skillfully combines knowledge in the field of jurisprudence with the order of mathematical proofs. Apparently that is why he is assigned the legislative direction in the ARB. People say that the meticulousness and persistence of the Tekhnobank president often forced his opponents to go back on their word. Mr. Tosunyan is known for his disputes with the Central Bank and with Aleksandr Pochinskiy, deputy chairman of the Duma Budget and Finance Committee.

Responding to the question of the KOMMERSANT-DAILY correspondent concerning the attitude toward the term "lobbyist" used with respect to the ARB, Vyacheslav Zakharov, ARB executive vice -president, stated literally the following: "I have a calm attitude toward this. I think that this is a normal phenomenon in the present situation, in the economy that we are developing. For now I would not exaggerate our achievements, because we still are not satisfied with them. But we have lobbied and will continue to lobby for the interests of commercial banks in all instances and in all bodies: the president, the parliament, the government, the Central Bank, and the tax inspectorate. This is one of our main tasks."

Relations Between ARB and the Central Bank Have Known Better Times

And so, three basic forces, which the ARB tries to influence, can be singled out: the Central Bank, the parliament (the Duma and the Federation Council), and what can be called the executive branch of power—the government and the presidential administration. Let us begin with the Central Bank.

People say that when Viktor Gerashchenko was chairman of the Central Bank, Sergey Yegorov, a personal friend of Viktor Vladimirovich, had no problems regarding meetings with the head of the Central Bank and a discussion of a certain matter. They say that, "if, during a telephone call from Yegorov, Gerashchenko was in the office, he always took the receiver." In other words, Mr. Yegorov had a high "degree of access." Owing to the closeness to the management of the Central Bank, ARB leaders managed to see to it that their opinion was taken into consideration during the preparation of normative documents. As a result, under Mr. Gerashchenko banks "butted" with the Central Bank comparatively rarely and such scandals as with the new rules of mandatory reserves could not be imagined, although disagreements also existed at that time. For example, the decision on an increase in the minimum amount of banks' authorized capital adopted at the beginning of 1994 did not evoke delight among some banks. The Central Bank and the ARB also disagreed on the fundamental question of admission of foreign banks to Russia. As is well known, Viktor Gerashchenko, who spent many years in Soviet foreign banks, was in favor of admitting a limited number of first-category foreign banks to the domestic market. The ARB did not like this very much and bankers, bypassing the Central Bank, went directly to the presidential administration, where they scored one of their most brilliant victories—they achieved the issue of an edict greatly limiting the activity of foreign banks in the country (November 1993).

Recently, however, relations between the ARB and the Central Bank have deteriorated considerably. In connection with the change of management in the Bank of Russia the ARB, in fact, lost the possibility of lobbying through it for the interests of commercial banks. Mrs. Paramonova's position on a number of questions evokes a poorly concealed irritation in the ARB. In this situation the association found quite a

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witty way out. During the discussion in the parliament of the Law on the Central Bank, the ARB achieved the inclusion in the draft of a provision obligating the Bank of Russia to take into consideration the opinion of commercial banks and their association during the adoption of fundamental normative documents.

{titl}Structure of the ARB

ARB Supports Increase in the Number of Banker Deputies

The association's legislative work is supervised by Vyacheslav Zakharov, its executive vice president. On whom does the ARB lean in the parliament? First of all, on the "backbone" of the State Duma Subcommittee on Banking Legislation headed by Pavel Medvedev. We would like to recall that at the end of 1993 the ARB took an active part in the preelection campaign of a number of banker candidates, who now work in this subcommittee. As Vyacheslav Zakharov admitted, the presence of a "support group" in the legislative body greatly facilitated ARB work: Deputies were more receptive to their colleagues—banking professionals—than to "outside lobbyists." "I think that in the forthcoming elections we must see to it that, perhaps, an even bigger number of bankers are elected," Mr. Zakharov says. Bankers are virtually not represented in the Federation Council, which is formed mainly from representatives of the regional nomenklatura. However, the ARB tries to make up for this deficiency. According to Vyacheslav Zakharov, work on the establishment within the framework of the Analytic Center of an expert council, which along with deputies of both chambers of the Russian Parliament will include well-known managers and bankers, is now proceeding actively in the Federation Council. The ARB expects to play a leading role in this structure. In general, the association pays attention to both chambers, in contrast, for example, to the same Central Bank. The Bank of Russia actively worked with Duma deputies and was able to attain relatively quick passage of the draft Law on the Central Bank, but it twice "failed" in the upper chamber. However, the Law on Banks and Banking Activity passed the Federation Council with comparative ease.

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Having Become an ARB Member, Chase Received a Gift From the President

The apparatus of the president of Russia also falls into the sphere of ARB interests. The information received by KOMMERSANT-DAILY from well-informed unofficial sources makes it possible to draw the conclusion that Sergey Yegorov, ARB president, personally supervises this direction in the association's activity. The incident with presidential Edict No. 419 was the reason for such a conclusion. According to the legislation in effect prior to the signing of this edict, the activity of foreign banks, which did not begin operations with Russian residents before 1 January 1995, was restricted to operations with nonresidents until 1 January 1996. This restriction extended to eight out of nine foreign banks operating in the RF—Chase Manhattan Bank International remained "below the line." Naturally, such a state of affairs did not suit the management of the American bank.

In January Chase joined the ARB (foreign members of the ARB include Bank Austria, Societe Generale Russie, and Bank of China (Elos)) and on 27 April of this year Edict No. 419 appeared, enabling "commercial banks with 100 percent participation of American capital" registered in Russia's territory before 15 November 1993 to conduct operations with Russian residents. The edict itself, especially the last two clauses, is reminiscent of a riddle with a well-known solution: Chase Manhattan Bank International is the only American bank which was registered in the RF during the indicated period and did not begin operations with Russian residents. Citibank T/O Moscow—the second (and for now the last) Russian bank "with 100 percent participation of American capital"—has already been given such a right, and other American banks do not plan to open subsidiary banks in the RF in the near future.

What made the president take such a step with regard to Chase? According to our information, Sergey Yegorov personally actively lobbied for this solution. Although previously Sergey Yefimovich opposed the admission of foreign banks to the Russian market of financial services, in this case he lobbied for the interests of the influential American bank. In our opinion, such a step could be dictated by two circumstances. First, among ARB members there are many banks (primarily the largest) which seek to penetrate foreign financial markets or to expand their presence abroad. But, as is well known, the principle of mutuality is honored here. Second, for now in the United States there are neither affiliates nor representative offices of banks from Russia. It is not ruled out that, in exchange for the service, one of the largest American banks will render assistance (or at least will not create obstacles) to the ARB in the accomplishment of these tasks in the homeland of Chase Manhattan.

While admitting the association's success, KOMMERSANT-DAILY experts nevertheless note that it is still premature to talk about a strong banking lobby in Russia. In particular, in the Russian Parliament political deputy factions, as before, solve key questions. For example, the idea of the authors of the draft Law on the Central Bank to create a strong national council in the country's main bank, which would be authorized to adopt decisions on key matters and control the management of the Central Bank, lost the initial formulation in the final version of the draft. According to this version, such a council is given nominal power and all key questions remain within the competence of the management of the Central Bank. Undoubtedly, the presence of such a body as a strong council of the Central Bank, which is given a lot of power, would be in the interests of commercial banks and their association.

[Box, p 5]

Milestones on the ARB's Long Path

—In November 1993 the ARB obtained the signing of the presidential edict "On the Activity of Foreign Banks and Joint Banks With the Participation of Funds of Nonresidents in the Territory of the Russian Federation," which restricts before 1 January 1996 the activity of foreign banking capital to operations connected with the servicing of Russia's nonresidents (for the sake of fairness we will note that in July 1994 the indicated restrictions were revoked for banks which already had licenses, but remained for newly established banks in which the share of foreign capital exceeded 50 percent).

—In April 1994 the ARB came out against the decision of the Ministry of Finance and the State Tax Service of the Russian Federation on a fivefold increase in taxes on bank profit, as compared with income tax, during the first quarter of 1993. In particular, the association managed to see to it that instead of the income of commercial banks, bank profit began to be taxed.

—In October 1994 the ARB attained the softening of a number of provisions of the RF president's Edict No. 1006 "On the Implementation of Overall Measures for a Prompt and Full Payment of Taxes and Other Mandatory Payments Into the Budget," which, in particular, established that enterprises, institutions, or organizations can have only one settlement (current) account for the performance of operations connected with basic activity in each of the applied currencies.

—In the current year the ARB obtained an agreement by the RF Ministry of Internal Affairs not to stop

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the activity of existing security services in affiliates of commercial banks before the introduction of appropriate changes in and supplements to the Russian Federation Law on Private Detective and Protective Activity. [end box]

***Increased Use of State Loan Bonds Expected**

954E1004A Moscow IZVESTIYA (FINANSOVYYE IZVESTIYA SUPPLEMENT) in Russian 23 May 95 No 35, p 3

[Article by Sergey Mitin: "The State Wants To Borrow More and Pay Back Later"]

[FBIS Translated Text] Last week the Finance Ministry, the Central Bank (CB), and the Moscow Interbank Currency Exchange celebrated the second day of the birth of GKOs [state short-term bonds]. And they simultaneously celebrated the birth of a new abbreviation—OFZ's, which stands for "federal loan bonds." Andrey Kozlov, the vice chairman of the board of the Bank of Russia, said that very soon the letters OFZ will be as familiar and easily understood as GKO.

The GKOs are not quitting the market. In 1995 they will remain the chief instrument for attracting funds to cover the state budget deficit. According to Bella Zlatkis, the director of the department of financial markets and securities of the Finance Ministry, since the start of the year the budget has received seven trillion rubles from issuing GKOs. By December, the Finance Ministry is counting on revenues of 19 trillion. And it is only the missing 12 trillion that the state plans to obtain for securities of the new type.

In the two years GKOs have existed, the Finance Ministry has issued 57 trillion rubles worth of the securities and received 12 trillion rubles in revenues: 150.5 billion in 1993 and 5.7 trillion in 1994. As of 18 May, GKOs with a face value of 29 trillion rubles are in circulation.

The volume of regular emission of GKOs rose from one billion rubles at the first auction in May 1993 to an average 2.5 billion rubles per week in April-May 1995. In 1993-1995, 37 three-month issues, 13 six-month issues, and one issue of one-year bonds were place, as well as eight additional blocks [transhei]. Since the start of 1995, more than 60 supplemental placements have been made in secondary auctions, and their volume has reached 4.4 trillion rubles (face value).

The average circulation for GKOs is rising sharply. At first it stood at 50 billion per week; in the first two weeks of May the average daily circulation for GKOs stood at 1.015 trillion rubles.

The percentage of client funds invested in state securities has undergone substantial fluctuations. In 1994 it had a tendency to rise. In a few cases the clients' percentage exceeded 50 percent, with an average of 36 percent. This level is holding steady in 1995. The total number of investors exceeded 4,500. Of these, over 90 percent are legal persons, and about two-thirds are banks. Andrey Kozlov emphasized that it is especially important that the rules of GKO trading have not changed in two years.

And now today, the Finance Ministry and the Bank of Russia are vigorously advertising the new loan securities. OFZ's are obviously going to become the chief instruments of borrowing in 1996-1997. Bella Zlatkis reported that Boris Yeltsin has signed an edict on the depositing of gold for the issuance of gold certificates. The issue volume of these securities will be two trillion rubles.

The chief features of the OFZ's are that they will be medium-term, coupon and paperless issues. The coupon income will change every quarter, depending on the average price of GKOs.

In the words of representatives of the Bank of Russia, the Finance Ministry, and the Moscow Interbank Currency Exchange, another idea is clearly discernible. By expanding trading in GKOs and OFZ's the state is trying to unify Russia's financial market. It is no accident that considerable resources are being invested everywhere in the organization of trading in state securities. The primary task of the Association of Russian Currency Exchanges is to enlarge the range of facilities for GKO trading. The Bank of Russia is focusing especially on the necessity of the quantitative and qualitative makeup of official dealers.

Quantitative changes refer to increasing the number of remote terminals. In the next few months, their number should rise to 150 or 200.

Qualitative changes involve connecting regional dealers and facilities in St Petersburg, Novosibirsk, Vladivostok, Yekaterinburg, and Rostov-on-Don. In addition to a single depositary, combining these facilities with Moscow will require the creation of a unified system of interregional settlements. As soon as the system is in place we can speak of a truly unified financial market. And if the system is built with room to grow, in the future it will make it possible to carry out almost any kind of trading in any financial instruments and securities in Russia's main financial centers. The Bank of Russia is oriented toward the creation of an interregional system which will make it possible to make payments "day to day" between agents from all parts of the country.

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The first OFZ auction is planned for 8 June. It is likely, however, that the date will be moved for technical reasons.

***Rules Establishing Banks' Obligatory Reserves Criticized**

954E1003A Moscow IZVESTIYA (FINANSOVYYE IZVESTIYA SUPPLEMENT) in Russian 23 May 95 No 35, p 3

[Article on behalf of the Council by Association President S. Ye. Yegorov: "Increasing Obligatory Reserve Funds Is Lethal to Russia's Economy. Statement by the Association of Russian Banks"]

[FBIS Translated Text] The Association of Russian Banks (ARB), on behalf of the commercial banks that are ARB members, expresses serious concern over the Central Bank's changes in the Statute governing procedures for the formation of commercial banks' obligatory reserves in the Central Bank (CB). Although ARB sincerely understands the CB's policy on the use of norms of obligatory reserves in order to regulate the country's money market, still it cannot help seeing that these changes could strike a serious blow against the ongoing process of stabilization of Russia's whole financial system. Experts estimate that the CB's decision will result in over six trillion rubles being taken out of the commercial banks' circulation. For the major banks, the increase in the obligatory reserves will exceed the previous norms by two to four times. Such a large and sharp diversion of funds from commercial banks' circulation and, consequently, the national economy, can lead to extremely negative consequences in the economy:

1. The macroeconomic situation.

1.1. A sharp decline in the profitability of commercial banks' holdings will reduce tax revenues to the state budget in the amount of at least three trillion rubles per year. The regions will suffer especially.

1.2. Owing to a shortage of resources, most commercial banks will be forced to refrain from placing funds in GKOs [state short-term bonds] in the amount of at least 4.0 to 5.0 trillion rubles; this in turn will undercut the possibility of covering the budget deficit by non-inflationary means, and new securities issues will not be fully sold out.

1.3. Small and medium-sized banks functioning largely on the resources of larger banks will inevitably go bankrupt. As a result, millions of Russia's citizens and many legal persons will lose their savings.

2. Prospects of investment activity.

2.1. Commercial banks will be forced to raise credit rates and curtail investment projects. For example, Inkombank will have to raise the cost of currency credit by at least 4 percent and ruble credit by 20 percent. The situation in the other banks will be about the same.

2.2. Due to the shortage of reserves for credit risks, banks will have to sharply curtail credit investments in the economy. In accordance with recommendations by auditing firms and in keeping with generally accepted parameters of reserve-to-credit ratios (the Basel Convention), many banks will have to curtail credit investments in industry and the agro-industrial complex by 20 to 30 percent.

2.3. A decline in liquidity and the rise of technical insolvency of Russian banks will cause major foreign—and also Russian—companies and enterprises to turn to Western banks for service.

3. Russia's position in international markets.

3.1. The anticipated failure to cover the budget deficit, due to the above causes, will make it difficult to obtain loans from international organizations.

3.2. The major commercial banks will not be able to form reserves for credit risks in the amounts and time-frames agreed on with the World Bank. At present the shortfall of these reserves in Russia's banks as a whole is about 2.0 billion dollars. Failure to meet obligations will undercut chances to obtain loans through the World Bank and make it difficult to open lines of credit in foreign countries.

Western banks will inevitably toughen requirements on 100 percent monetary covering of letters of credit of Russian enterprises and banks; this will tend to raise the cost of servicing subjects of foreign economic activity, and the chance to broaden exports will be in jeopardy.

In the situation as it stands, commercial banks are forced to state that many of them are not in a position to meet the CB's new conditions on reserve formation.

Recognizing the importance of forming reserve funds in the CB as an important anti-inflationary tool, and also considering the above conclusions and the sharp drop in inflation, the ARB considers it advisable:

1. To continue the dialogue in search of a positive solution to this problem and create a special commission which would include representatives of the President's apparatus, the government, the CB, interested ministries, commercial banks, and the ARB.

2. To set reserve fund norms at no more than 10 percent on ruble demand accounts and 0.5 percent on currency accounts.

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3. To form currency account reserves in the corresponding currencies.

4. To eliminate multiple reserve fund formation for loro accounts.

5. To have the CB and the commercial banks agree on schedules for paying off obligatory reserve fund indebtedness arising as a result of the new reserve formation procedures.

6. In order to maintain the commercial banks' solvency, to have the CB submit payment overdrafts to banks within limits calculated on the basis of 20 percent of created reserves.

7. To increase the size of banks' currency positions by volumes of reserves in currency accounts.

8. To have the CB examine the question of introducing payments against accounts of commercial banks' obligatory reserves on the level of the rate of CB refinancing, or on the level of the average value of the bank's own liabilities. It is also advisable to introduce incentives for any transactions by a bank and exempt them from the reserving of certain liabilities.

9. To have the CB examine the question of procedures of banks' use of funds from the obligatory reserve fund. In particular, in the case of settlements on the basis of average daily balances, allow for the possibility of the return of excess amounts of transferred funds from that fund, without waiting for the end of the current month.

The ARB and the commercial banks believe it is advisable to introduce a procedure of preliminary consultations between the CB and specialists of the ARB and banks when making changes of a fundamental character which regulate their activity.

*Business Association Roundtable Assessed

954E1017A Moscow KOMMERSANT-DAILY in Russian 24 May 95 p 3

[Article by Sergey Slyusarenko: "Revealing Speeches of the Business Elite Against the Background of Nicholas I"]

[FBIS Translated Text] **Last weekend in St Petersburg was marked by an event that both the public and the political elite noticed. The organizational meeting of the first regional department of the association of business circles known as KSBR [Russian Business Roundtable] served as a call for the formation of an extensive regional structure of the organization which KSBR leaders have been talking about for half a year. It was attended by bankers from Moscow and St Petersburg, executives of local St Petersburg firms, and also city administration leaders headed by Mayor Anatoliy Sobchak. The meeting proceeded very quickly and ended with the unanimous election of the presidium and chairman of the St Petersburg department of KSBR. Curiously, most of the speakers tried so insistently to convince the others that they are completely uninterested in politics—they are supposedly interested exclusively in business—that they mostly achieved the opposite effect.**

The All-Russian Constituent Congress of KSBR was held last December in Moscow. And ever since, according to its founding fathers, they have yearned to organize a regional KSBR network. The role of proving ground went to St Petersburg. But, as KSBR's executives inform us, applications to open regional departments have come in not only from Novosibirsk or Tula but also from Buryatia and Tatarstan. They will all be reviewed, and it is quite possible that the decision will be made at the meeting of KSBR's coordinating council which will take place in Moscow in a month. Maybe after this the Roundtable will no longer be considered a purely Moscow clique of the country's richest people.

The speakers at the forum were unable to avoid certain contradictions; evidently this can be chalked up to the organization's young age. Thus, while Aleksandr Orlov, the executive secretary of KSBR's coordinating council, thinks that the organization is called upon, among other things, to lobby for the interests of Russia's entrepreneurs, KSBR President Ivan Kivelidi says that the word "lobbyism" is used pejoratively in our country. He says that lobbying in Russia is something that big and powerful organizations do, such as LUKoyl, Gazprom, or leading enterprises of the military-industrial complex, while all the others are mere supplicants. Having to beg is demeaning, Mr Kivelidi said, and that's why the idea of consolidating the efforts of all entrepreneurs came about. Moreover, entrepreneurs include not only famous bankers, for example, but also the owners of privatized apartments. In general, though, membership in the organization is collective, and its officers never tire of repeating that as a rule, a powerful financial or industrial group stands behind every name. A closer look at the KSBR's operation in Moscow confirms this assertion.

For all their affected apolitical stance, KSBR's participants and guests did not refrain from commenting on Russia's domestic politics. Thus, St Petersburg Mayor Anatoliy Sobchak, who spoke instead of Duma Deputy Irina Khakamada (who did not come to the forum), said patronizingly that a negative attitude toward Viktor Chernomyrdin's and Ivan Rybkin's blocs was "political immaturity." Sobchak did not call on entrepreneurs to

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join these blocs but, as is traditional, did advise them to choose between reformers and democrats rather than nationalists and neo-communists (to be sure, just how the communist-capitalist Vladimir Semago, who is an active member of KSBR, reacted to this advice is unknown).

Like the other members of the government, Sobchak naturally is assigned a key role in the plans of KSBR's leaders. They believe it won't hurt the local unit to confer regularly, on an informal basis, with the city fathers ("so that later, if they don't take our recommendations to heart, we'll have the moral right to say, Don't say we didn't warn you'").

While the St Petersburg government attended the forum in nearly full force, the bankers were represented more modestly. On the other hand, various company and joint enterprise executives turned out en masse, and clearly this is what set the tone of all the talk following the solemn speeches. The speakers dealt chiefly with their enterprises' particular problems. The announced discussion of the authorities' tax policy and the formation of the budget simply never took place. Moscow bankers representing Tekhnobank (Garegin Tosunyan) and Most-Bank (Sergey Zverev) preferred to stay in the shadows. Executives of St Petersburg banks did likewise. They all simply acted as observers of the discussion, which, however, didn't seem to want to get going.

Representatives of the banking sector behaved calmly, aware of their power and importance. So when it came around to electing the presidium, participants remembered the bankers without any effort on the bankers' part. Yuriy Lvov, the chairman of the Board of Sankt-Peterburg Bank, and Sergey Popov, chairman of the Association of Commercial Banks of St Petersburg, wound up on the presidium. Aleksey Kudrin, the deputy mayor for finance, and Mikhail Manevich, the deputy mayor for property administration, are there to keep them company. Other presidium members are the well known entrepreneur Ilya Baskin, who has often been the focus of conflicts and scandals, and Vadim Sergiyenko, the general director of an AOOT [unidentified] with the promising name Reserve Officers. Heading up the presidium is Almaz AO General Director Vadim Zhimirov, a deputy to St Peterburg's legislative assembly, the owner of a network of food stores, and a major wholesale butter supplier (during the election campaign he distinguished himself by installing an iron fence around the monument to Emperor Nicholas I, just for the sake of his own popularity). In Russia, feelings of humble loyalty have never interfered with successful business. Therefore, the declared apolitical nature of KSBR's St Petersburg department is best characterized by the words of Viktor Chernomyrdin: "There is no way anyone can engage in economics without engaging in politics."

KSBR President Ivan Kivelidi. From a conversation with KOMMERSANT-DAILY:

...The opening of the St Petersburg department is vital because we must not allow politicians to fragment entrepreneurs in such a major Russian city on the eve of elections, by means of their lordly-patronizing attitude toward us. To the old nomenklatura we will always be outsiders. We entrepreneurs must take action ourselves to influence the present pre-election alignment of forces. We want nevermore to turn our speech functions over to the politicians speaking on behalf of our interests....

...The two superclubs which now make up the power structures certainly have a better starting position than the others. When Gazprom alone can crush all the banks of Moscow and St Petersburg, there's something wrong....

...I myself will take part in the elections along with my fellow-thinkers who are ready to set business aside for a time. The provisional name of the bloc which consists of the Free Labor Party, the Khakamada Movement, the Consolidation Party and certain other organizations is Novyye [New]....

KSBR Presidium Executive Secretary Aleksandr Orlov. From a conversation with K-D:

...Your newspaper is always criticizing us, saying KSBR is an inert, amoeba-like organization. Perhaps. But you see, this is a virtue. We will never make abrupt movements and declarations. KSBR's basic principle is total and absolute consensus....

...If you want to find some kind of intrigue, go ahead; it is natural and grows out of the standoff between Moscow's capital and its use in the provinces. The provinces have always been jealous of the Center. Even among you people in St Petersburg the first reaction to the proposal on cooperation was, What the hell do we need you for?

...In every region we try to determine each group's interests and try to find a common denominator. There are three distinguishable groups in St Petersburg: the military-industrial complex, the new joint stock companies (created in the past two or three years), and the banks. The second group is most poorly represented in the forum; evidently not all their interests have been taken into account....

Garegin Tosunyan, president of Tekhnobank and vice president of the Association of Russian Banks. From a conversation with K-D:

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...Why am I here? Because nobody's will is imposed at meetings of KSBR, no one demands categorical terms, there is no monopoly on truth. I think that if anyone wants to find common ground with me I don't have the right to refuse him. There are some extremes, I wouldn't want to sling mud at anyone, although I might listen. In principle, KSBR can also be used as a way for opponents to meet....

...I myself try to keep a distance from politics; my field of interest is a civilized effort to ensure normal operations in the banking sphere....

...As for all the rumors about a split within KSBR, they are nothing but rumors. There have been some differences of opinion as to whether KSBR ought to engage in politics or whether it makes sense to focus on the corporate interests of the entrepreneurial class. No more than that. It seems to me that everything is very much intertwined in Russia now; to say that one side can exist apart from another makes no sense, it's an illusion....

...Purely theoretically, Sobchak, as a jurist and legal expert, is creating excellent conditions for the development of banking in St Petersburg—even better than in Moscow. Luzhkov—he is more practical and is doing more for the city itself. By the way, there are more market trends in the capital city.

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National Affairs

CP Deputy Strongly Condemns Power Bill

954F2397A Kiev GOLOS UKRAINY in Russian 23 May 95 p 11

[Interview with Supreme Soviet of Ukraine Presidium and Communists of Ukraine member Vladimir Mikhaylovich Yatsenko by Ivan Dmitrenko: "The Force of Power: For or Against the People?"]

[FBIS Translated Text] *Problem No. 1 during the parliamentary hearings of March and April was achieving at least some mutually acceptable agreement on the draft Law on Power. The confrontation was between blocs of right-centrists and the leftist forces. The law, as is well known, was adopted as a whole. But problems remain.*

To paraphrase an expression that has become a catch phrase, "There is no peace under the olive trees," one may say that there is no peace under the Kiev chestnuts. The adoption of the power law after such fierce clashes, after all (the political bottom line of which is undoubted), is not a peace, but just a truce, since the developers of the new conceptual framework of power (is it new, anyway?) and its opponents have remained by and large in their former positions.

Namely which? An interview with V. Yatsenko, a member of the Presidium of the Supreme Soviet of Ukraine and of the parliamentary faction "Communists of Ukraine—For Social Justice and Power of the People," is of interest in this regard. Vladimir Mikhaylovich, by the way, is one of the people's deputies from the past composition of the Supreme Soviet who won the trust of the voters once again. It is also noteworthy that he cannot be relegated to the opponents of the President, since V. Yatsenko has openly and persistently supported L. Kuchma in the course of the presidential elections. That does not, however, signify his unreserved support of the President in everything, including on the question of the law on power. Here Yatsenko the deputy takes a stance that differs largely from the official conceptual model of the President. The host of his amendments to the draft law and his vision of the way out of the crisis in a real separation of functions among the branches of power as set forth in this discussion are testimony to that.

[Dmitrenko] Vladimir Mikhaylovich, your opinion: what is the strategic purpose of the power law? In other words, what role is being assigned to it by the compilers of the Law in the battle to gain real power in Ukraine?

[Yatsenko] All power in Ukraine, according to the currently prevailing Constitution of Ukraine, belongs to the people. That is a very important provision. The people at all levels provide for control over the activity of the leaders of villages, cities, rayons, oblasts and the state through their elected deputies. The people, I emphasize, do not replace the leaders and executive bodies, but rather monitor and regulate their activity. They do not provide any opportunities to abuse power or to act in circumvention of the Law and the Constitution.

Many of my amendments to the power law pertained precisely to the latter—all of the bodies of power should act within the limits defined by the Constitution and the laws of Ukraine. And it is namely that provision that has encountered the frenzied opposition of some deputies. By accident? Hardly. Article 47 of the power law, after all, defines the actions of the administration in accordance with a statute that is approved by the President of Ukraine. That Statute, in other words, is placed above the law and the Constitution. Add here the one-man designation of the General Procurator and judges, and the picture becomes completely clear—namely that all real power is not with the President; he is simply a person, and thus will not be able to realize that amount of power. The real power is concentrated in the hands of his apparatus, omnipotent, "all-knowing," issuing commands and dispensing punishments. But God help us, as they say, that that power favors the people, fights corruption, the plunderers and other criminals, the administration of state property.

But that is just the point, that certain forces do not require power for this, or for their essentially anti-populist reforms to proceed more quickly, for the process of the looting of nationwide property and the formation of a class of haves to be completed in a shorter time. And after all of that, let he who dares utter a protest that the gas has been turned off, that rent is more than pay, that the cost of a pass to a vacation home or Pioneer camp is more than the yearly wage of the average inhabitant of Ukraine! The vacation homes, the sanatoriums, the Pioneer camps and all the rest, after all, will no longer be the people's. They are to be transferred (and are already being transferred) to the visitors to the night bars, casinos, supermarkets, *i.e.* to a new class of haves. And the people have been so deceived in recent years, so robbed, that they are beginning to understand and resist more and more. Moreover to resist legally, in accordance with the Constitution. The Constitution will collapse with the adoption of this law, and that means protest will be illegal. Who would consent to that?

[Dmitrenko] What mechanism does this law provide for the redistribution of power from the top down?

[Yatsenko] That is entirely the point, that there is no such well-defined mechanism in the law! The executive committees of the Soviets, the territorial administrations, and the Cabinet of Ministers act in accor-

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dance with their authority as defined by the President of Ukraine.

You know, it sometimes becomes awkward for solid people—individual leaders of cities, rayons, and oblasts—to inveigh for sole responsibility and full support of the Law on Power. What exactly are they supporting, after all? What authority will be granted to whom? According to what principle will it be distributed, according to what criteria? Should more power be given or taken away? We do not find clear answers to this in the law. And it should all be clearly spelled out, after all, otherwise there will be disaster.

[Dmitrenko] Could the real power remain with the Soviets at all levels, starting with the Supreme Soviet, under this arrangement?

[Yatsenko] Certainly not! The Soviets are becoming powerless, a kind of appendage to the administrations and executive committees. They would be, figuratively speaking, torn away from the system of power constructed by this Law, as it were, and would remain only so that one could say to protesters and doubters, "Well, what are you saying—the Soviets exist, after all." For example, the Supreme Soviet unequivocably could not "dig into," according to this Law, the criminal actions of the Blasko AO [joint-stock company], could not get an answer from our governmental "reformers" as to why a law-abiding person does not have the opportunity to earn enough for an apartment. And what kind of reform is this anyway—running over human lives?

[Dmitrenko] Could one assert that the Law has positives in it?

[Yatsenko] I at least do not see it. Both its authors and the coordinating commission that refined the Law could not cite any substantive arguments in support of the vital necessity of this Law. The argument that "it is needed because we want it very much" is an argument, but not a very convincing one...

[Dmitrenko] Proceeding from the same idea, could it be asserted that provisions and norms are inherent in the Law whose adoption could lead to irreversible consequences (in the direction of a worsening of the situation) in the country, and to a loss of the elements of democracy?

[Yatsenko] Such apprehensions are not groundless, in my opinion. It is worth recalling the situation in Germany in the '30s and '40s. All of the power went to him, a sole leader. The parliament was essentially crushed. The result was fascism, a world war and tens of millions of human victims. At approximately the same time, the USSR. All power was with him, "the leader of all times and peoples." The Supreme Soviet, the party Central Committee, were just symbols. The result was repression, hunger and mass human victims once again. Recent history: the first and only president of the USSR demands more and more power from the Congress of People's Deputies. They give it... Ultimately, the break-up of the country, civil war and human victims once again. Very recent history—the shooting up of the Russian parliament, after which a concentration of all power with him, the "sole," the "popularly elected," the adoption of "his" constitution, the structuring of power according to "his" configuration. The result—civil war, the death of innocent people. And even crocodile tears from the pseudo-democratic leaders, and their demands to alter the constitution they pushed through in the area of limiting the authority of the President.

I do not scare anybody. But everyone, and first of all the people invested with power, should understand that the Law is a very serious thing. And one must think long and hard before expressing one's "I approve" to the whole country!

[Dmitrenko] Developing this idea further: what, in your opinion, would the institution of the vertical power structures that our President is talking about so much signify?

[Yatsenko] No one is against strengthening executive power vertically! But the proposed Law on Power, after all, does not accomplish that task. The leftists are proposing that changes be made in several articles of the Constitution so as to strengthen that vertical power—and that is it, and then—just to work, manage the economy, and not divide power.

[Dmitrenko] A coordinating commission worked on the edited law. Was it really coordinating in essence or, pardon the term, more appeasing as a concealed form of powerful lobbying pressure?

[Yatsenko] The pressure really was strong, and it was moreover unconcealed and in ultimatum form: either accept our terms, or else. Various "faithful subjects" are giving their recipes for just what the "or else" is—the disbanding of the Supreme Soviet, a referendum, a plebiscite and so on. This is, strictly speaking, the familiar "terrorist logic" in politics, when the pilot of an aircraft is demanded to change course. If he does not, they blow up the plane. Who is to blame in such a situation? The pilot, of course, in the opinion of the terrorists...

Our whole misfortune is that fundamental decisions have been made according to this "logic" in recent years. That is why the consequences of those decisions are so negative.

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[Dmitrenko] What is your prediction of what the possible consequences of the adoption of this law would be?

[Yatsenko] Political prediction, as is well known, is a thankless job. I hope that the deputies will display wisdom. Amendments to the Constitution must be adopted that would strengthen executive power vertically. I would very much like to see the assistants and advisors to the President get over the "power sickness" a little more quickly and launch some intelligent organizational work. Matters will not proceed without such work, no matter how many papers are written, no matter how many pretty words are spoken and no matter who holds what power.

We do not want to worsen the political struggle, including at the regional level, or see a further impoverishment of a large portion of the population, or the even more impertinent plundering of the national wealth.

I very much do not want to see any harm. It is simple to crush the Supreme Soviet. But then what? The parliament today, after all, is the same as the people. That means that the people must be "crushed" right after the parliament. Our people have suffered more than enough, and if not all, then at least a majority want to live and work peacefully and normally. Work and live!

Horbulin Assesses Power Bill Victory

954K0602A Kiev UKRAYINA MOLODA in Ukrainian 23 May 95 p 3

[Interview with Volodymyr Pavlovych Horbulin, Secretary of the National Security Council and Presidential National Security Adviser, by Dmytro Lykhoviy and Olena Zvarych: "Volodymyr Horbulin: 'The Battle for Power Has Ended in Favor of the President's Program, and That is The Main Thing'"]

[FBIS Translated Text] *Representatives of the presidential administration spilled a great deal of sweat over the last six months until the Law "State Power and Local Self-Government" was approved in the Supreme Soviet. The goal was achieved. What lies ahead? The Secretary of the National Security Council and Presidential National Security Adviser Volodymyr Horbulin, a guest of UKRAYINA MOLODA last Friday, answers these and other questions.*

[Horbulin] The day the Law on Power was approved was a noteworthy day for Ukraine, I do not fear to say it. It seems to me that over the whole time of coexistence of the Supreme Soviet and presidential power as such, starting in July of last year, this was the first time mutual understanding was reached on one of the most important questions of domestic policy. This understanding is not a final one, but the decision on the power law, in my opinion, testifies to the fact that there are people in both the legislative and executive branches of power who are thinking about Ukraine. That is what is most important. Everything that came before May 18, after all, testified to something else—there was political ambition, through which no agreement could work, instead of a consolidation of forces.

I feel that after the fierce battles in parliament of May 18, there are no winners and no losers. The approved power law is testimony that there is still reason here, that we as a nation are able to proceed toward a defined goal. The next day, May 19, as you know, the Supreme Soviet devoted to the General Procuracy, and thus did not get to consider the question of the constitutionality of what had been approved the day before; that is not what is important. The adoption of the power law gives the President, first of all, an opportunity to form a government in a certain time (that is one of the key issues that is now facing Ukraine) before reforming the whole executive branch of power. You, of course, heard the critical speeches in the Supreme Soviet directed toward the President (they were often quite just)—the President has actually been working for some time without a designated prime minister, and that is having an effect on the whole system of administration. My task, the task of the whole National Security Council, is not to miss this opportunity to form a government in a short time, where the President and prime minister will be working together.

[Lykhoviy and Zvarych] Volodymyr Pavlovych, the parliament, as is well known, adopted an amendment to the power law that stipulates that there will be no opportunity to vote on presidential impeachment or the disbanding of the Supreme Soviet before the adoption of the new Constitution. But what will happen if the Supreme Soviet ultimately heads off into the thickets of parliamentary crisis?

[Horbulin] I think that there is no such threat today. The two hundred twenty six votes of people's deputies for the power law testify that there was a definite turning point in the composition of the parliament. And I am almost certain that there will not be any demands for revolutionary decisions, for impeachment or the disbanding of the Supreme Soviet. A definite time has now started (four, six, or perhaps nine months) over which all healthy forces of society should do everything necessary to see that the Constitution appears. The new Fundamental Law will remove all questions and dot the "i." If the President and the constructive forces in parliament continue to work along these lines, there will simply not be any time to think about disbanding.

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You know, the idea of the possible disbanding of parliament was going around the session hall of the Supreme Soviet, it could simply be physically felt there, although Leonid Kuchma gave no direct pretexts for it, he was simply reacting to certain speeches by Moroz and others. But it seems to me, I repeat, that matters will not come to disbanding.

A different step could now be taken instead—we need to think about how to arrange a constitutional government between the President and the constructive portion of parliament, which is already gradually approaching a constitutional majority. Although I doubt that such an agreement could be reached at once, there are very many issues of a particular nature here, one could hardly assemble more than 300 "yes" votes given the current composition of the Supreme Soviet. But a critical mass of people who are truly prepared to work—and not just to define their place in the political hierarchy—and feel that the proclamation of slogans is the main thing for them, has appeared for the first time.

[Lykhoviy and Zvarych] As for such a political agreement, parliament speaker Moroz regarded it as an unconstitutional step just a week ago...

[Horbulin] Of course it is unconstitutional. Everything here is being done in unconstitutional fashion today. If you take the legal foundation, the elections of the deputies themselves were not quite constitutional either, since strictly speaking the Constitution was approved by an unconstitutional majority of the Supreme Soviet... There is no need to get into a dead end here; we will build our system of coordinates and live within them. We should not create a framework beyond which we cannot go later. We have a basic task today—to create a government and oblige it to work, and the task of the Supreme Soviet is to monitor that government.

[Lykhoviy and Zvarych] The Supreme Soviet, having approved the power law, has not yet completed the whole matter—they still need to adopt a mechanism for the operation of that law, which contravenes some articles of the Constitution. What is your prediction regarding the adoption of that mechanism? What is your view of the overall prospects for state power in Ukraine?

[Horbulin] I do not think that May 18 will be a one-time outburst in parliamentary practice, since we have already been working almost every day with the representatives of various parliamentary factions (the communists among them) to find ways of getting out of the political dead end that we have gotten into with the law.

What lies ahead? I feel that regardless of the approval or lack of approval of the mechanism for the enactment of the Law on Power, it will have to be realized. Parliament, according to a provision that exists today, could abrogate a decision by the President only through a veto, and that takes two thirds of the votes, which are very hard to assemble. The main thing is that we must mobilize in such a way that a full-fledged Constitution is adopted. We thus cannot console ourselves with the vote on May 18—we need to work to get the process going.

Some could take offense or not take offense, but in the process of discussion of the power law there were no fights between the branches of power. There was a fight for power in pure form. Today it has ended in favor of the President's program, and that is the main thing. Because the President is pursuing a policy of reform.

Economic Issues

*Kuchma, Bank Chairman Disagree on Financial Policy

954E1001A Moscow KOMMERSANT-DAILY in Russian 18 May 95 p 4

[Article by Viktor Zubanyuk and Aleksandr Vodynets: "Kuchma Has Entered Into a Dispute With the National Bank of Ukraine"]

[FBIS Translated Text] **It appears that radical changes are to be expected in the financial policy of the Ukrainian authorities, in which, over the last six months, monetarist trends have prevailed. This is because Leonid Kuchma, president of Ukraine, and Viktor Yushchenko, chairman of the board of the National Bank, assess the future of the course toward financial stabilization and replacement of the karbovanets by the grivna in totally different ways. The Ukrainian president intends, despite the introduction of the new monetary unit, to increase credit for enterprises sharply and to carry out mutual offsets for non-payment. The victory of the president's point of view may lead to hyperinflation and a landslide drop in the exchange rate of the karbovanets in relation to the ruble and the dollar. It is advantageous for Russian entrepreneurs and financial structures to have the situation develop in this direction, since as a result, the position of the ruble on the market of limited convertible currency will strengthen, and the possibility of investing in priority sectors of the Ukrainian economy will broaden.**

In the opinion of Viktor Yushchenko, chairman of the board of the NBU [National Bank of Ukraine], monetary reform in the country can be implemented as early as the third quarter of 1995. Yushchenko feels that this

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period for putting into circulation a full-value national currency, the grivna, is optimal for several reasons: by the end of summer, the inflation rate is expected to drop to 5 percent a month, as the result of carrying out stabilization measures (from the beginning of the year to April inclusive, the monthly indicator dropped from 21.2 percent to 5.8 percent). In addition, regulation of the deficit of the state budget and monetary emission has been achieved, not the least role in which was played by the loans of international financial organizations, $583 million of which is at the disposal of the NBU. Viktor Yushchenko's optimism, however, based on the rigid credit and monetary policy of the last few months, was unexpectedly not shared by the president of Ukraine. At a conference on economic problems, in which, in addition to members of the government, directors of leading state departments and commercial banks took part, he criticized the policy of financial stabilization being followed. Kuchma claimed that monetary stabilization for the economy was not in itself a determining factor, and that the present financial policy was not optimal. The president complained that the increase in stabilization measures prevented executive authority, together with the NBU, from promptly switching to surmounting the payment crisis and stimulating the solvent demand of the population, and that there should be a basic expansion of the production process. Having diplomatically noted that he would not like to consider the reason for what was happening as the inability of the people determining the content of the state's economic policy to solve economic problems in any way other than shutting off the emission valve, Kuchma stated that, because of the rigid monetary policy in the first quarter, the process of stabilizing industry had been virtually broken off. According to data from the Ukrainian Ministry of Statistics, a sharp drop in production volumes had been recorded. This is not the only one of the consequences of stabilization measures in the financial sphere which distressed the president. The inadequate changes in the currency exchange rate of the karbovanets and rates of inflation, as he admitted, sharply limited the export potentials of the enterprises. The payment crisis had become unprecedentedly acute, as compared with past years, as a result of which 190 trillion karbovanets worth of goods had piled up in the warehouses of industrial enterprises in April of this year, and the value of unfinished production and accumulated commodity-material valuables was equivalent to the price of the goods produced by industry in the space of 220 days.

Having expressed his worry about the processes taking place in the economy, which could cancel out all the achievements made in stabilization up to this time, Leonid Kuchma stated that the policy that he had announced for correction of the reforms "is not, as some people perceive, a purely symbolic slogan," and demanded of the participants in the conference "decisive, coordinating, and possibly in some aspects even extraordinary actions" to rectify the situation. Here he demonstrated an example of these extraordinary actions, quite transparently explaining to those assembled: considering all the above-said, the statement of the head of NBU on the optimal period for monetary reform was not worth taking seriously. This last stroke, together with the preceding theses of the president's speech, made observers assume that the emission-free period in Ukraine's financial policy would soon come to an end. Malicious tongues did not fail to say sarcastically that Kuchma the director had got the upper hand over the president and now probably the next development of events. The industrial lobby in the Supreme Soviet is hastening to make use of the situation, trying to raise the quarterly "ceiling" of the credit emission higher than the 70 trillion karbovanets indicator approved by the NBU, and to achieve mutual offsetting of debts between enterprises. Considering the apportionment of forces in parliament, the probability of the success of these actions is quite high. Yushchenko feels that as a result of the mutual offsetting, that is the "all-round amnesty of non-payments" and the extra-plan emission, the next splash of inflation will take place, in the struggle with which NBU will no longer have time for monetary reform. Ukraine, therefore, as is shown by the experience of the four mutual offsets which took place in the last few years, will with increasing speed again begin to twist in circles along the spiral of economic recession.

*National Program for Oil, Gas Supply to 2010 Viewed

954K0566A Kiev URYADOVYY KURYER in Ukrainian 20 Apr 95 p 5

[Commentary by Professor Petro Shpak, Director of the Institute of Geological Sciences of the National Academy of Sciences of Ukraine, under the rubric "Topical Commentary": "The National Program Has Been Approved. What Next?"]

[FBIS Translated Text] **On 17 February 1995, with its Decree No. 125 the Cabinet of Ministers approved the key indicators of the National Program "Ukraine's Oil and Gas Up To 2010." The provisions of this document are analyzed exclusively for** *Uryadovyy kuryer* by Professor Petro Shpak, the director of the Institute of Geological Sciences of the National Academy of Sciences.

The Ministry of the Economy and the Cabinet of Ministers conducted a detailed analysis of the different ways of developing the sector described in the Program and

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verified the justification and accuracy of the technical and economic computations. The review confirmed the validity of the levels of oil, gas, and gas condensate production specified in the Program, as well as of the volumes of exploratory and production drilling, etc.

This fact in itself testifies to the high qualifications of the collective of authors of the program. Virtually all of Ukraine's authoritative specialists in the oil and gas sector took part in drawing up the program, and according to a decision of the Cabinet of Ministers the principal organization responsible for drafting the program was the Institute of Geological Sciences of the National Academy of Sciences of Ukraine. The collective of authors of the program comprised over 120 scientists and experts representing more than 20 scientific-research institutes, enterprises, and organizations subordinated to various departments.

Putting aside departmental ambitions and interests and united by a single purpose — the desire to surmount the crisis in this vitally important sector to Ukraine — the authors of the National Program provided the justification for choosing the best way of developing the oil industry from among the many proposals considered.

The principal indicators, approved by a Cabinet of Ministers decree, are as follows: by 2010, the annual output of oil (including gas condensate) will increase from 4.2 million metric tons (actual output in 1994) to 7.5 billion metric tons, and that of gas — from 18.3 billion cubic meters to 35.3 billion cubic meters. Over a period of 15 years (1995-2010), known reserves of oil (with condensate) will be increased by 114.4 million metric tons and of gas, by 549.8 billion cubic meters, and 2,488 wells will be put into operation, including 1,200 oil wells and 1,288 gas wells.

The most important task today is to develop and put into operation a concrete and effective mechanism for implementing the National Program. Unfortunately, we have to admit that there exists the danger that the program will not be carried out in terms of a number of indicators. Above all, this applies to the volume of deep exploratory drilling, which, according to the program, should have totalled 510,000 linear [pohonnykh] meters in 1994 and 536,000 meters in 1995. In reality, however, in 1994 the enterprises of the State Committee on Geology [Derzhkomheolohiyi] and the State Committee for the Oil and Gas Industry [Derzhnaftohazprom] together drilled only a total of 157,500 meters of exploratory wells (31 percent of the target set in the National Program).

The past year was catastrophic for geological prospecting: drilling volumes fell 50 percent as compared with the year before, and overall more than threefold as against 1990. Plans for 1995 call for drilling 250,000 meters of exploratory wells, but it is doubtful that this target will be met. Yet if no drilling is done, new fields cannot be discovered, the exploration of known reserves is halted, and oil and gas reserves are not increased. Compared with 1993, when the total increase in reserves of hydrocarbons in Ukraine amounted to 39 million metric tons of ideal fuel, in 1994, this increase totalled only 20 million metric tons. The situation will get even worse in the future, inasmuch as the reserves put into operation in past years have become depleted.

It should be noted that last year brought another negative "record": for the first time in the last 35 years, that is, virtually in the entire history of Ukraine's oil and gas industry, the increase in the reserves of oil, gas, and condensate proved smaller than the amount being produced. Although as a result of improving the organization of operations, introducing accelerated output, and other measures, the oil and gas extracting enterprises maintained output volumes of hydrocarbons in 1993-1994 at levels that even somewhat exceeded those forecast in the National Program, in the very near future the lag in increasing proven reserves will cause difficulties with respect to the distribution of exploratory drilling volumes and the development of the production of oil with condensate and of gas.

The development of hydrocarbon resources under the Black and Azov seas is cause for particular alarm. These areas are viewed as the most promising region as far as the possibility of discovering new large and medium-sized deposits are concerned. In accordance with the National Program, in 2010 one third of Ukraine's oil and condensate and nearly one quarter of Ukraine's gas is to be extracted from under these two seas. However, a great deal of work needs to be done to attain this goal, including creating specialized technical means of drilling and developing the underwater fields, sharply expanding the volumes of exploratory and production drilling, and equipping proven and newly discovered deposits. Thus far, very little has been done to begin work in the waters of the two seas, while the delay in developing the resources in these waters threatens the execution of the National Program as a whole.

The main reason for this state of affairs is a lack of the financing needed to conduct geological prospecting, replacing capital stock and technically retooling the enterprises in this sector, and organizing the production at Ukraine's plants of the technical means, equipment, and materials and chemical reagents, needed by geological prospectors and oil and gas industry workers.

Everyone understands that today the state budget cannot provide sufficient funds. But in all countries with a

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market economy, even in those where the volumes of hydrocarbon extraction are not large, the oil and gas sectors are fairly stably profitable and capable of financing their own development. Why is this not true here?

Primarily because of our price policy. As late as at the beginning of December, the wholesale purchase price of oil produced in Ukraine equalled $32 per metric ton, and $7 per 1,000 cubic meters of gas, which amounted to 29 and 9 percent, respectively, of world prices.

Recently, wholesale prices were raised to practically world levels: they were set at $106 per metric ton of oil, and it is planned to raise the price of gas to $80 per 1,000 cubic meters. At the same time, however, the state has established a rent charge of $19 per metric ton of oil and plans to charge $41 in rent per 1,000 cubic meters of gas — in other words, more than half the price of gas will once again go to the budget. Thus, the cost of gas to the consumer will be high, while the gas producing enterprises will still not earn the funds they need for the self-financing of geological prospecting, the technical retooling of the sector, and the development of science and production.

Ukraine makes insufficient use of such sources of financing as including private domestic and foreign investors in the exploration and development of gas fields through licensing, creating joint ventures, etc.

As we can see, there are quite a few difficulties on the road to carrying out the National Program. To overcome them, the State Committee for the Oil and Gas Industry and the State Committee on Geology, together with the authors of the program, must make a very serious effort to implement point 2 of Decree No. 125 of the Cabinet of Ministers, which provides for drawing up yearly and forecasting (for the next two years) plans for the development of the oil and gas industry that include setting priority objectives and volumes of work and sources of financing.

In this endeavor, a great deal of attention must be paid to energy conservation and raising the effectiveness with which oil and gas resources are used.

Estimates have shown that Ukraine will not be able to meet fully its requirements for oil and gas from its own sources. A substantial portion of these products will have to be imported. Russia and Turkmenistan, which possess huge resources, will remain the principal sources of gas imports.

The situation is different with respect to oil. The rate of decline of oil production in Russia is very high. Compared with 1990, when Russia's annual output of oil amounted to 517.2 million metric tons, output in 1993 measured 343.3 million metric tons and in 1994 fell to close to 300 million metric tons. This stems from intensive selective development of unique oil deposits, in which reserves have now been used up 65-85 percent. In addition, the structure of reserves being explored in recent years is worse, new deposits are smaller in size, deposits are being discovered in regions that are not easily accessible, under the waters of Arctic seas.

What should we, as importers, count on? Not far from Ukraine lies the world's principal oil region — the Persian basin (Saudi Arabia, Oman, Kuwait, Iran, Iraq, and others). This is a huge neotectonic structure which today contains 95 billion metric tons of the world's 136.2 billion metric tons of oil.

In our opinion, Ukraine must open trade representations in the countries of the Middle East as soon as possible, set our experienced drillers to drilling deep wells (using the watch method) and perhaps also to pumping oil, and speed up the construction of a gas pipeline through Turkey and oil terminals in Turkey and in Odessa.

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Armenia

*Official on Privatization Policy Goals

954F2329A Yerevan VREMYA in Russian 13 May 95 p 2

[Interview with Pavel Kaptakhchyan, chairman of the State Administration for Privatization and Registration of State Property, by Artem Yerkanyan: "'In June the Voucher's Exchange Rate Will Be 40 Percent Higher Than Now'"; place and date not given]

[FBIS Translated Text]

[Yerkanyan] The time allotted for open subscription to ten first-stage enterprises is nearing an end. We can already speak of some conclusions regarding the legislative basis of privatization.

[Kaptakhchyan] Sometimes I catch myself noting that certain factors which we come up against are not provided for in the government's decrees. Of course it was impossible to predict and take account of everything. So a lot has to be corrected as we go.

[Yerkanyan] How about the subscription itself?

[Kaptakhchyan] Overall, things are going according to plan. I can say confidently that the subscription to shares of at least 9 out of 10 enterprises will go through.

[Yerkanyan] But what will happen if more than 75 percent of an enterprise's shares go unclaimed?

[Kaptakhchyan] Hard to say. Most likely it will be included on lists of enterprises subject to privatization during following stages. It may be that during its privatization, a different system will be used, such as auction or competition [konkurs].

[Yerkanyan] Competition? Does the law really call for this?

[Kaptakhchyan] Not much attention is being paid to competition at present. But the method is going to be tried.

[Yerkanyan] How does it work?

[Kaptakhchyan] Competition differs from the other two systems in that the potential owner has to meet a number of conditions; it depends on which bidder [pretendent] can best meet the conditions....

[Yerkanyan] What conditions, for example?

[Kaptakhchyan] Consider an enterprise specializing in medicine. Naturally, preference will go to the bidder who is directly involved in medicine.

[Yerkanyan] What if several of them are?

[Kaptakhchyan] Then the auction method will be used.

[Yerkanyan] Don't you find the competition method somewhat dangerous? The subjective factor would seem to play too big a role.

[Kaptakhchyan] I agree. That's why the competition system is assigned a modest role. There may be cases, however, when this system is the most acceptable.

[Yerkanyan] As you predicted, the subscription to shares of the first 10 began to gather steam only toward the end. How come? Is it just a national character trait to leave everything till the end?

[Kaptakhchyan] The enterprises of the first 10 are profitable. We don't know whether there will be such tasty morsels in the next stages. Clearly this is starting to get through to people.

[Yerkanyan] Each visitor to the auction center has the chance to get relatively fresh information as to what portion of the shares of some enterprise has already been distributed. A great deal depends on this: the fewer the co-owners the greater the owner's share. Hence, the one who signed up at the very end winds up in a much more favorable position than the one who committed himself at the very start.

[Kaptakhchyan] No one can have complete information. The person who signs up for shares on the last day of the subscription campaign cannot be assured that several hundred other persons won't come to get shares of the same enterprise an hour before the auction center closes.

[Yerkanyan] Nevertheless, opportunities are not equal. Wouldn't it be better to keep the information about the number of subscribed shares confidential?

[Kaptakhchyan] Not at all. Anyone who really needs it will still find out. Why needlessly create grounds for doubts as to the probity of the auction center personnel?

[Yerkanyan] The government has instituted a very strange system of forming the Council of Stockholders of Privatized Enterprises. The decree stipulates that the Council should include owners of the biggest packets of shares, which infringes on the rights of owners of small packets. Why has the state decided itself to determine who is to run an enterprise?

[Kaptakhchyan] The membership of the Council must in any case be approved by a general meeting. So I don't see any grounds for anxiety about stockholders' rights.

Owners of two or three shares will have a hard time getting on the board of directors, because at the general meeting the votes are distributed in accordance with the number of shares in stockholders' packets. Holders of large packets are not likely to want to admit small stockholders onto the Council. In the Council itself, after

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all, all issues will be settled by a simple majority vote regardless of the share participation in the charter fund.

[Yerkanyan] You believe the present rate of exchange of privatization certificates is unrealistic. When will the market begin to feel the pressure of objective factors?

[Kaptakhchyan] The state appraised the 10 first-stage enterprises at 150,000 certificates (I think that's about how much will go). About 100,000 have already gone to privatize small outfits and have therefore gone out of circulation. That is, 250,000 out of three million vouchers are already out of the game. Another 600,000 vouchers will probably be eaten up by the second stage of privatization. About a million certificates will have been used for their direct purpose by late May. Obviously, fewer certificates will result in a higher exchange rate. In June, I think, the voucher's exchange rate will be about 40 percent higher than now.

[Yerkanyan] In commenting on the reasons for the higher value of certificates, the prime minister did not rule out the possibility of a revision of its face value....

[Kaptakhchyan] You'll recall that the increase in the certificate's face value was linked to reevaluation of the privatized enterprises' capital. In the next while the situation is hardly likely to change so substantially as to require a new reevaluation.

[Yerkanyan] Today the certificate holder has two choices: either invest the voucher in shares or sell them. I can easily understand why a man would choose the latter, because I, like he, realize that there's not much hope for dividends in the first one or two years, and even if there are dividends they will be too small compared with the kind that generally provide investment capital by playing with the difference between security exchange rates. Why has the state deprived citizens of the choice of investing shares directly in enterprises, by instituting such a tough statute on investment funds that nobody is able to meet its requirements yet?

[Kaptakhchyan] It's wrong to say that the government is not interested in creating investment funds. The tough requirements stem from the desire to rule out the possibility of consequences like the "bank hysteria" which tens of thousands of citizens were victimized by. I assure you that there will definitely be investment funds in Armenia. If it becomes clear that the requirements stipulated by the law cannot be met, I think the issue of toning them down will be raised.

[Yerkanyan] When do you think a secondary market in securities will begin to form?

[Kaptakhchyan] Probably in late summer. Stockholders' meetings will be held in May and June; they will elect Councils, and these in turn will elect boards of directors. If the boards immediately set about preparing securities, by July stock exchanges will be able to list shares. By autumn, I think, demand will also emerge.

[Yerkanyan] What is the planned period of time for completion of the whole privatization?

[Kaptakhchyan] There's no unified program. The Supreme Soviet has only approved a program for this year. A new one is being drawn up for the future. If the destatization process continues at the same pace as today, in three years the whole portion of state property that is subject to privatization will be in the hands of private owners.

*State of Agricultural Sector Surveyed

954F2332A Yerevan RESPUBLIKA ARMENIYA in Russian 17 May 95 p 2

[Interview with Ovsep Kloyan, chief of the Main Economic Administration, Ministry of Agriculture, Republic of Armenia, by Ashot Aramyan: "The Silence of Piglets and the Bleating of Lambs"; place and date not given]

[FBIS Translated Text]

[Aramyan] Mr Kloyan, agriculture is one of the most important sectors of the republic's economy, and, despite pessimistic predictions, it has not only survived and held steady under difficult conditions, it is even tending to grow. Do we have a general conception or program of development of the sector?

[Kloyan] Yes, we have worked out a document called "Conception of Agrarian Policy in the Republic of Armenia." Last year it was approved at a republic conference devoted to problems of the agroindustrial complex. Soon the document will also be approved by the government.

[Aramyan] So how do specialists view the immediate future and more distant prospects of the agrarian sector?

[Kloyan] Primary attention is being focused on raising the republic's food self-sufficiency. This policy must be viewed over the short term—designed to overcome the difficulties caused by the blockade.

[Aramyan] Does this mean that once the blockade is lifted this problem will fade to the background?

[Kloyan] Yes, and here's why. Today's level of integration calls for the free exchange of farm goods among countries. It makes no sense to develop absolutely all agricultural sectors; we should only develop those which

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have the best prospects in the republic. Consider pig and poultry farming, for example. Before, each republic specialized in certain types of production, supplying both itself and the region if not the whole USSR. Can we now, given the lack of our own feed base, maintain our previous volume of poultry farming, which used to number more than nine million birds? Of course not. You know Russia used to supply us almost a million tons of feed annually. And so, parameters need to be optimalized in poultry and pig farming, involving the implementation of reforms and volumes of our own and imported feeds. In regard to these sectors, we need to focus primary attention on the maximum possibilities of our own feed production, and the number of birds and animals and the production of livestock products need to be brought into line with that.

[Aramyan] What prospects does the republic have for developing cattle and sheep?

[Kloyan] In this case, our own feed production will enable us not only to restore but also to boost production. Moreover, livestock farming will keep supplying the domestic market.

[Aramyan] What about crop farming?

[Kloyan] Our traditions and potential are very favorable to the development of grain farming, fruit raising, viticulture, and also the production of vegetables and industrial crops. The deciding factors here will be seed breeding, rebuilding irrigation systems and adapting them to the newly formed individual farms, privatization and renovation of the processing industry, and, on this basis, improving the quality of the goods and raising them to present-day standards.

[Aramyan] What is the main task of the agroindustrial complex over the longer term?

[Kloyan] We should enter the international food market by promoting the formation of new commercial production farms.

[Aramyan] In practically all spheres these days, the role of the state is being reevaluated and changed. How is that role being transformed in regard to agriculture?

[Kloyan] Indeed the role of the state is changing radically. The state is no longer directly and immediately involved in rebuilding and developing agriculture; rather, it is acting to enable agricultural producers to become fully independent and fostering conditions to get producers interested in boosting and developing production. To do this, a number of key tasks need to be accomplished. In particular, ensure macroeconomic stabilization and intensify reforms in the agroindustrial complex. Next, develop an agrarian market and pass general laws and legally binding acts. These changes must also be reflected in the creation of a unified link of administration of the agroindustrial complex. Under market conditions, the state will assume the role of coordinator and analyst. The developing system of administration of agriculture must give up its still-existing administrative-command, over-protective methods and create and perfect mechanisms of activity of the links of the state inspectorate system, paying special attention to the conservation of land, water, and plant resources, and combatting pests and livestock epidemics. Let me note that these measures will be the responsibility of particular services to be financed from the state budget. The state's agrarian policy will make active use of economic levers such as taxes, credits, state orders and prices, insurance, and so on.

[Aramyan] What will be the state's main approaches in using these instruments in its policy?

[Kloyan] In regard to taxes, plans call for the differentiated approach on the regional plane as well as with respect to the strategic importance of a particular sector. The state must also provide farmers with a favorable financial climate; it will be necessary to create a cooperative agricultural bank which can accumulate and make "pinpoint" use of foreign investments, farmers' funds, and so on. Next, considering that to a large extent farming in Armenia involves risk, we need to create precise mechanisms of an insurance system. Finally, considering the fact that a number of subjects funded by the state budget use farm products, the role of state procurement rises. Solving this problem will make it possible to meet the subjects' needs better by simultaneously creating conditions for the state to take part in farm product procurement and price setting.

[Aramyan] Let's talk about land a bit. How do specialists view the future of farm allotments and individual farms, how will the buying and selling of land be resolved?

[Kloyan] I can say that in the foreseeable future, although the formation of medium- and large-sized farm enterprises and free individual farmer associations and cooperatives is not ruled out, over the long run small-scale operations based on small peasant farms and individual labor will predominate. But the task is to foster the kind of integration which will lead to the amalgamation and merger of land allotments and, ultimately, the formation of profitable individual commercial farms. Ways to achieve this can include the formation of cooperatives, peasant associations, unions, and other forms of voluntary association.

Considering Armenia's specific character and its peasant traditions we can conclude that for a long time to

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come land allotments will be amalgamated without the transfer of ownership, and so the decisive role will be played by leasing. Only over the longer term, when the republic's other economic sectors have been rebuilt and developed, will intensive changes in the rights of ownership and merger of land allotments become possible on the basis of the buying and selling thereof.

In addition, we will have to develop a land market, a commercial market of farm products in order to promote saturation of farm goods and products.

[Aramyan] What problems can be solved in the countryside by the ongoing privatization process?

[Kloyan] In order to create a farm product-processing-marketing system based on a similar form of ownership it is essential to immediately privatize the processing industry and wholesale trade, and also to transfer retail trade outlets to private hands through auctions or sales to collectives. We will also have to give up having the state directly provide agriculture with material and technical resources. Both republic and local bodies of state administration must retain the functions of creating the necessary economic and legal conditions for the provisioning and servicing of agriculture, also scientific-consultative and inspection functions. The path of private ownership and free enterprise must also lead the way to solving problems of seed breeding, pedigree livestock breeding, and veterinarian service.

[Aramyan] What other problems of agriculture haven't we discussed?

[Kloyan] There are many. For example, one of the main tasks of agrarian policy is to provide agriculture with the means of production, including fertilizer, chemicals, medicine, and so on in addition to equipment. Moreover, we face the task of making full use of the World Bank's first stage of financing the rebuilding of irrigation systems, perfecting the system of collecting water fees, water distribution, and so on. In short, there are plenty of problems. The main thing is that now they are all precisely set forth in programs for the rebuilding and development of agricultural sectors based on the above "Conception," and ways to solve them have been mapped out.

Azerbaijan

Deputy Minister Views Trade Issues

954F2396B Baku VESTNIK RUSSKOY OBSHCHINY AZERBAYDZHANA in Russian 19 May 95 No 15, p 2

[Interview with Azerbaijan Trade Minister S. M. Bayramov by correspondent: "Trade, Prices, and Suppliers"; place and date not given]

[FBIS Translated Text] **In an interview with this newspaper's correspondent, Azerbaijan's Deputy Trade Minister S. M. Bayramov said:**

As we know, economic reforms and the market have opened the door wide for private capital and commercial organizations. Prices have been released on all goods except bread and fuel. The kind of centralized supply that we got so used to for decades no longer exists. Under the new conditions, the role, place, and functions of state trade have changed radically. Customers may get the impression that state trade's influence on today's market is minimal if not reduced to zero and that the delivery and sale of commodities, in particular food, are handled chiefly or totally by commercial outfits.

But this is far from the case. For this paper's readers let me cite some statistics. Since the start of the year the republic's Trade Ministry has brought in from outside 1,983 tonnes of lard, 4,100 tonnes of meat, and 4.584 million standard containers of condensed milk. We have received 1.19 million cases of Manalak baby food, consisting of a whole milk blend and rich in vitamins, calories, and minerals. Manalak first goes into the Health Ministry system and then goes onto open sale. These goods, and certain others, have come in via Poti, delivered there by sea from Ireland, France, and England. They are purchased using Euro-Union credits.

Soon we will also get lard from Lithuania and 2,000 tonnes of pearl barley from Russia.

Let us note that the food products which the Trade Ministry brings in and sells average 15 to 20 percent cheaper than in commercial stores and booths. Moreover, the presence of a variety of goods in the state's network, acquired directly by the Trade Ministry, has a beneficial impact on prices, substantially lowering them. Why is it that the cost of sugar has risen sharply everywhere? It's because lately, for various reasons, sugar has not been being purchased through state channels.

The high prices on various food products are basically due to the fact that we import them, which means that they are generally purchased at world prices which are not in keeping with most of our citizens' earnings. The situation would change greatly for the better if

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the republic's local industry would start working more productively and efficiently. Paradoxically, sometimes the products of Azerbaijan's agriculture and the State Concern of the Food Industry are much costlier than those that can be purchased abroad at world prices. Thus, the butter produced in the republic is being sold at prices 1.5 times higher than imported butter.

High transfer prices in local industry are one trouble. Another one is that the sector is in a deep crisis and can't seem to get out of it. Worse, the supplying of finished goods made in the republic's enterprises is steadling falling. A republic fair was held early this year, at which manufacturers exhibited product samples to trade organizations. The Trade Ministry signed agreements with the Agriculture Ministry and Azerpishcheprom State Concern. More such deals are going to be signed. There are some figures, frankly, which are not encouraging. The Agriculture Ministry plans to market only 15,600 tonnes of meat in 1995; the food industry pledges to deliver 15,000 tonnes of sausage, 15,000 tonnes of cheese, 7,000 tonnes of margarine, and 70,000 tonnes of confections. For a country with a population of seven million, these are pretty skimpy amounts. And it's not absolutely certain the plans will be fully met.

Comparative figures are cause for worry and concern. In the first quarter of this year, compared with the same period last year, deliveries were: 46.7 percent of canned fruit and vegetables, 58.9 percent of meat, 24.1 percent of sausage, 45.7 percent of cheese, and 26.6 percent of dairy products.

Still, we'd like to hope that producers and suppliers will mobilize their reserves and correct the situation in the remaining months. Certainly we must be aware of the obvious difficulties caused by the breakdown or weakening of traditional economic ties, the economic blockade, huge transportation costs, and sharply higher prices on energy. Any improvement in agriculture in the near future will come from the agrarian reforms Azerbaijan is starting to undertake.

I think that in order to boost our own production of consumer goods we have to make them competitive, be more aggressive in attracting foreign capital, and undertake to organize new joint ventures geared to produce goods for consumers. In particular, I think, we should start making high-demand goods that are not being produced in the republic. I believe it would be useful to encourage local entrepreneurs who undertake to produce such goods using their own funds. For starters they could be exempted from taxes for, say, four to five years. State trade enterprises need a similar approach.

In order to boost and expand the consumer goods market and bring down selling prices, the Trade Ministry should be supplied (as it used to be) with some of the raw materials categorized as strategic, also hard currency, and credit should be provided.

Success will have to come from a flexible tax policy designed to prevent an unjustified rise in prices on locally produced food.

These days it is extremely vital to work out and establish a normative-legal basis to protect consumers' interests; this will also help them acquire goods—of good quality—at moderate and more affordable prices.

Government's Handling of Economy Criticized

954F2396A Moscow SEGODNYA in Russian 18 May 95 p 7

[Article by Arif Useynov, Baku: "The State Is Eating Up All Its Credits and Petrodollars. Over 90 Percent of the Population Reduced to Poverty by Economy of the Absurd"]:

[FBIS Translated Text] **AZERBAIJAN**

Representatives of Azerbaijan's authority structures lately can't seem to reach agreement on the most urgent economic and social policy of the country. Thus, despite the President's edict on quarterly indexation of people's earnings, Finance Minister Fikret Yusifov announced that his department does not intend to institute indexing, because the treasury is empty and industry is paralyzed. The 1.2-dollar minimum wage now will only buy a kilogram of potatoes. Meanwhile, prices on energy are being raised—resulting in food prices going up—strictly according to the schedule agreed on with the IMF. Last week Dzhumshud Nuriyev, the head of the parliamentary commission monitoring the budget, announced that the government's domestic debt exceeds 400 billion manaty and continues to grow.

The fact that the treasury is empty and industry is paralyzed was also acknowledged by Parliament Speaker Rasul Guliyev at the last meeting of the millimedzhlis [national parliament]. Earlier it was claimed that the sharp drop in production was due to the temporary suspension of traffic on the North Caucasus Railroad. According to the latest story, however, all troubles are due to the fact that Azerbaijan has not yet signed economic treaties with a single CIS country, so there's no one to produce things for. Workers are producing for themselves, and they are being paid for their labor with their own products. For example, instead of wages one of Sumgait's chemical enterprises is paying its workers with detergents, which they then put out for sale on Baku's busy streets.

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Experts believe that the country's economic success depends completely on those who occupy high positions and are carried away with populism and are not able to correct the situation. The state is actually eating through its credits and petrodollars, putting them up for sale on the exchange. Inflation is being kept artificially at 3 percent by stopping the financing of many sectors; according to Vice Premier Tofik Azizov, that is what has stopped industry. While he does not approve of this policy by the Finance Ministry, he does acknowledge that it holds the budget deficit down. In the first quarter of this year, industrial production fell by 28 percent and sharply reduced budget revenues. Industry executives believe that the government is to blame for the shutdown of dozens of factories and plants: on the one hand, financing has been halted; on the other hand, interest rates on loans have been raised (up to 250 percent in the National Bank). Independent experts call such a situation "the economy of the absurd," which has led to the impoverishment of over 90 percent of the population.

At the most recent meeting of the millimedzhlis, heads of economic departments offered abstract explanations of the situation and promised nothing by way of consolation.

***National Bank Official on Monetary Policies**

954F2308A Baku ZERKALO in Russian 6 May 95 No 17, p 3

[Interview with Elman Rustamov, chairman of the board of the National Bank of Azerbaijan, by I. Umudlu: "'We Will Be Able To Curb Inflation Before the End of the Year,' Thinks Elman Rustamov, Chairman of the Board of the National Bank of Azerbaijan"]

[FBIS Translated Text]

[Umudlu] One of the most painful topics of the day is that we are experiencing a time of mass bankruptcy of so-called "philanthropic societies." Hundreds of thousands of people, judging from everything, have already lost the hope getting their money back. Do you not have the feeling that the entire banking system has been compromised in the eyes of the population? Why have the supervisory financial organs remained silent for so long and started to speak only after everything was already done—literally all of the country's population was left, as they say, "without a penny in their pocket?"

[Rustamov] I agree with you. Yes, in fact through their activity they have compromised the banking system in the eyes of the uninitiated public....they have caused us moral harm by calling themselves banks. They were merely impostors. They have nothing to do with the banking system. Yes, we bear moral responsibility for the results of their activity. But if we delve more deeply, this is a very complicated story. Reflection on this subject leads to the idea that this was inevitable. Take Russia or the other republics, the same thing happened there. When an old system is being dismantled and the country is moving from one economic system to another, when there arises a legal vacuum which is accompanied by critical domestic political processes, etc., the appearance of such phenomena as these "philanthropic societies" is inevitable.

But we professionals all along were predicting and warning about how all this would end. The logic and the level of interest they were offering gave reason to assume that all this was only advertising because this kind of interest cannot be provided. I emphasize again that nobody remained silent. I can show you the television chronicle: The minister of finance and the president of the National Bank spoke up and warned the population. But all that took place in an atmosphere of a legal vacuum, under conditions of complication of the political situation, and an incomplete understanding of the essence of the matter prevailed in society. In such conditions, intervention on the part of supervisory organs into the activity of the "philanthropic societies" would have served as an additional spark. It was impossible to do that.

[Umudlu] Judging from everything, the banking system has entered a phase of legislative reinforcement of its normative base. So far nobody is expressing dissatisfaction with the existing law "On Banks and Banking Activity" (unlike many other laws), at least not publicly. In your opinion, is it in need of changes?

[Rustamov] The law has not been a bad one. It was developed by the best minds of the republic in conjunction with IMF experts. I myself participated in this. But during a transition period any law becomes outdated. We are now working on a new legislative base: A new draft law has been prepared, "On the National Bank," and a new law "On Banks and Banking Activity" is being prepared in conjunction with the IMF. There will be large changes that encompass all spheres of the operation of both the National Bank and commercial banks.

[Umudlu] The country's population is still poorly oriented in a financial world that is new to us. In particular, the people do not have information on the degree of reliability of the banks of Azerbaijan. We do not know whom to do business with so that we will not be sorry later....

[Rustamov] We in the National Bank are developing ratings of the reliability of commercial banks. We will publish their balance sheets and other indicators. Thus

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the population will have an opportunity to become familiar with their affairs. And the balance sheet is a mirror of the bank's condition.

[Umudlu] Many of our banks are working with old-fashioned methods. Is anything being done in the banks for a radical change in work methods? For example, judging from press reports, Russia has begun mass use of electronic equipment in banks. How about us?

[Rustamov] Unfortunately, we are far behind in this, as we are in other spheres. One of the main areas of our work is improvement of bank settlements. A great deal has already been done—12 regional clearance centers (RKTs) have been created and now, in conjunction with international organizations and the Ministry of Communications, we are working on introducing modern technology. This has to do with electronic transfers, which are used throughout the world. I think that before the end of the year the clearance center will be joined by electronic mail.

[Umudlu] You can count the number of large banks in Azerbaijan on the fingers of one hand. Small banks, like small political parties, are powerless. What tendencies do you see in the development of banking?

[Rustamov] Officially we have about 200 banks in operation. The same thing that was seen at the dawn of capitalism in other countries is taking place here. There is merging, concentration, and structuring of large, medium-sized, and small banks. As a result, banks of various sizes will serve various levels of clients. For example, Azakbank has already grown to provide service for the "contract of the century." And small banks will serve businessmen. Some of them will specialize. Possibly large banks will swallow up some of the small ones.

[Umudlu] We have now managed to reduce the rates of inflation significantly. Will this last long? After all, the enterprises are not working, production is declining, and in such a situation the growth of inflation is inevitable. Some people express the opinion that inflation is being held down artificially and it will not last for long. Can you predict the situation, say, up to the end of the year?

[Rustamov] I will say one thing: You cannot artificially curb inflation for six or seven months. Today's condition is a reality. I share your uneasiness about how long it will last. But I think that we will definitely be able to curb inflation up until the end of the year. We have made a commitment to the IMF that during the second half of 1995 the level of inflation will be 1 percent per month. In March and toward the end of April it was 2.5 percent. Will it last long? In order for this to last long we need radical changes in the sphere of production. First of all the Ministry of Economics must have a clear, well-considered policy, a program for improving the health of each enterprise individually. In addition to this there must be a clear structural-investment policy. It is such a policy that we are now waiting for.

[Umudlu] What will be the interest rates on deposits in Sberbank in the next few months? Quite recently they went up to 30 percent. Sberbank gave 25 percent and then reduced this rate to 15 percent. The chairman of Sberbank considers this interest rate realistic and even very high, and he allows that, depending on the circumstances, this figure could even go down....

[Rustamov] Indeed, 15 percent for Sberbank and 10 percent for foreign currencies are very high interest rates. In America, for example, for such term deposits the interest rate is 7-8 percent and sometimes even 4-5 percent. If we keep inflation at 2 percent per month, then 15 percent is the limit, but 12 percent is normal.

[Umudlu] As far as we know, you are a pessimist with regard to the future of the "unified ruble zone." What is the reason for your pessimism? Why do you not want to enter this "zone"?

[Rustamov] I will be brief: If we proceed from the experience of the European Union, which intends to introduce a unified currency, the ECU, this is possible only on the basis of convertibility of currencies. But the post-Soviet states are far from this. I will explain this with a simple example: Say that Azerbaijan owes Russia, which, in turn, owes Kazakhstan. Moscow suggests to Almaty that it settle with Azerbaijan. But Kazakhstan does not need our manats at all, they are afraid that they will not be able to sell them. What then? That is the reason for my pessimism.

[Umudlu] Incidentally, a number of post-Soviet states have achieved convertibility of their currency in a short period of time. What fate awaits the manat?

[Rustamov] I say all the time that convertibility of currency means mainly convertibility of the economy, which means economic growth, prosperity, growth of the country's export capabilities, and change in the payment balance and trade balance. If we export more and import less, we will accumulate a sufficient reserve of foreign currency. Increasing exports will make foreigners look for manats because our only means of payment is the manat. Additionally, I am counting to no small degree on the receipt of petrodollars—they will be a very powerful support in the convertibility of the manat.

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Latvia

*Director Details Constitution Defense Bureau Tasks

954K0585A Riga in Latvian 24 Apr 95 pp 3-4

[Interview with Lainis Kamaldins, Director od the Constitution Defense Bureau by Ainars Dimants: "Supervisor — In Accordance with the Law"]

[FBIS Translated Text] **Lainis Kamaldins, Director of the Constitution Defense Bureau (CDB), in an interview by Ainars Dimants, commentator for *Diena*.**

[Dimants] What brought about your interest in intelligence activities?

[Kamaldins] While working in the Prosecutor's Office, the chaos in the state could be felt — corruption, organized crime. The main thing here is not investigative, but operative work. I find operative work compelling. I saw how these services were being created, that their quality could be significantly higher. But I could not see changing my job in the Prosecutor's Office. Now that there is a service being formed where these problems can be resolved, I have agreed to go.

[Dimants] What are your three main objectives, after you assume responsibilities as director in the as yet nonexistent CDB?

[Kamaldins] Among the functional duties, the first is to become more closely familiar with the existing state security agencies. Then — activate the State Security Agency Council. Using both this council, and the bureau — to coordinate the activities of these services. The law states that this council adopts decisions, which are recommendations, by nature. Therefore, the are not obligatory, but allow and promote the possibility for discussion. When sensible people hold a discussion, even though they may represent various viewpoints, a better working model is usually found.

[Dimants] Will you have the last word?

[Kamaldins] In such cases, I will also be held accountable, if they are contradictory, for example, to such recommendations.

[Dimants] In effect is the regulation confirmed by the Cabinet of Ministers on Security Police (SP) of the Ministry of Internal Affairs, whose primary function is defined as exceeding the powers of the SP, as described by the law on State Security Agencies, — "included in its duties is to organize and realize steps to divert and neutralize actions, which are directed towards the violent overthrow of constitutional establishments, or, which otherwise threaten state security". The CDB specifically emphasizes that the CDB is involved with such intelligence activities, not "steps", as a non-military state security institution. How do you think you will be able to get all of the state security agencies — including the Military Counter-intelligence Service of the Ministry of Defense, the SP, and the National Guard Headquarters Information Service — to act within their powers, in accordance to the law?

[Kamaldins] First of all, the regulation, as you already have mentioned, is under the authority of the Cabinet of Ministers, but it must be in accordance with the law. That would be a matter for the Constitutional Court, because the regulation is not confirmed by the National Security Council, nor the bureau. At the same time, the bureau controlling actions and the actual activity of the SP must be in accordance with the law, not with the standards defined by the regulation, if some type of conflict arises between them.

[Dimants] How can these difficulties be resolved?

[Kamaldins] I think that an excess of conflict should not be created, and that the solution should be attempted through talks on various levels — both in the National Security Council and among the services. There is a possibility that the bureau will have to assume various functions, which are being performed not only by the SP, but perhaps also by some of the other state security agencies. Furthermore, some of these agency leaders have also stated that — while this bureau does not exist, in order to preserve the existing groundwork, they are, in fact, performing such work, which should have been done by the bureau. This must be carefully examined. In any case, this is not a question to be resolved in one day, or by one order.

[Dimants] But don't the three other state security agency leaders report to you?

[Kamaldins] They do not report to me. It could be said that this is a coordinating supervisory situation. They report to their direct chiefs.

[Dimants] Respectfully, to their Ministers or Chief of National Guard Headquarters, who are National Security Council members. Is this how a parallel system will be insured, so that there can be no information monopoly, which could be used manipulatively? Why is this dual reporting order necessary?

[Kamaldins] I was also a participant in working out the bill and the discussions about it. Various viewpoints were expressed, but the predominant one was that there cannot be a single department's information collection service, which, in fact, is only working for its own department. Each department is asserting — information is essential for my job, and, therefore, it is essential that we have such a service. The goal of the bureau is for all

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departmental heads, who need information and have the right to request and receive the same, actually receive it, and that it is — summarized by all information providing sources. In addition — with a higher degree of reliability, more precise and wider ranging, and, possibly, also better evaluated. That is the main goal of the bureau. At present, these services are having a hard time working together because of departmental, often unfounded, resistance. That is what has, in fact, occurred, although, at present, it seems that the mutual relationships among these three forces has improved. In return, the CDB is an inter-departmental institution, where the interests of one or another department are not held above the rest. Along with this, the bureau can serve in a coordinating function, as an alleviator of this mutual stress, and as a supervisor, in accordance with the law, so that these services do not perform unnecessary duplication.

[Dimants] In order to avert duplication of work, you must, apparently, first determine that this duplication is taking place. Likewise, in order to counter a certain service from not performing certain appropriate duties or not acting within its legally specified powers, this must be determined, first of all. How can this be done, if we accept the fact that information in the department can be "stopped"?

[Kamaldins] There are ways to do this, but revealing them would probably seem impractical, on my part. Undoubtedly, the situation where these services are hiding information is not permissible. Information is being gathered in the interests of the state, not the interests of a Ministry.

[Dimants] Since the main objectives of the CDB will be determined by the National Security Council, which has responsibility over it, what objectives are you going to set?

[Kamaldins] The bureau is a realizational institution, which also controls the implementation of this goal. The National Security Council determines the direction in which to act — the bureau carries this out. The bureau divides the major direction into smaller objectives, but, naturally, it is not allowed to overstep its boundaries. Further, the bureau follows the implementation of these objectives, receiving the gathered information, and sending it on. Such is the model.

[Dimants] Is it precisely the CDB director who determines and coordinates cooperation of state security agencies with foreign security agencies?

[Kamaldins] The policy on foreign cooperation is determined by the National Security Council — if it is just to select potential cooperating partners. Undoubtedly, this is for an exchange of information, and, also, for the protection of state secrets.

[Dimants] Western experience demonstrates the importance of parliamentary control over the special service, from the standpoint of public safety and trust. What have you concluded, upon leaving the position of Secretary of the Saeima National Security Commission?

[Kamaldins] If people, in their everyday lives, feel that the CDB is not aimed against "incorrect thinking", that it is not a tool for forcing ideology upon them, then they will be able to evaluate it for what it is. It is important for it to inform the public about it activities. This commission must work for the interests of society — thus, it should contain at least the representatives of the major political parties.

[Dimants] In everyday life, there is mention of illegal eavesdropping on telephone conversations, even associating this with the illegal observation of the activities of political organizations.

[Kamaldins] The commission does not have at its disposal any substantiated information about such eavesdropping. I will do everything to get to the bottom of this.

*March Unemployment Statistics Reported

954K0585B Riga in Latvian 21 Apr 95 p 11

[Article by Agita Berzina: "Unemployment in March — 6.7 Percent"]

[FBIS Translated Text] Riga, April 20. As shown by the State Employment Service data, the officially registered unemployment level for March was 6.7 percent among the economically active population. The same level of unemployment was also present in February.

As of the beginning of April of this year, 91.5 thousand active job seekers were registered. Eighty-five point seven thousand people have been officially recognized as unemployed. Thirty-seven point eight thousand have been unable to find a job in over six months, and 18.2 thousand have been without a job for more than one year. More than half of those unemployed are women.

In March, 32 percent of all those unemployed were authorized to receive unemployment benefits. The average benefit paid per unemployed person was 24.86 lats.

The highest unemployment levels in March were found in Kraslava rayon — 25.1 percent, Rezekne rayon — 24.3 percent, Preili rayon — 23.6 percent, Jekabpils rayon —20.0 percent.

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